U.S. TREASURY DEPT.

ANNUAL REPORT

1969.

THE DEPARTMENT OF THE TREASURY 1789

of the Secretary of the Treasury on the State of the Finances

FOR THE FISCAL YEAR ENDED JUNE 30, 1969

TREASURY DEPARTMENT

DOCUMENT NO. 3248

Secretary

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The statistical tables to this Annual Report will be published in a separate STATISTICAL APPENDIX.

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STATISTICAL APPENDIX

The tables to this Annual Report will be published in the separate "Statistical Appendix."

NOTE.—Details of figures may not add to totals because of rounding.

Secretary, Under Secretaries, General Counsel, Assistant Secretaries, and Deputy Under Secretaries for Monetary Affairs, Serving in the Department of the Treasury from January 21, 1969, through November 1, 1969 [1]

Term of service		Officials
From	To	
		Secretary of the Treasury
Jan. 22, 1969	----------	David M. Kennedy, Illinois.
		Under Secretary
Jan. 27, 1969	----------	Charls E. Walker, Texas.
		Under Secretary for Monetary Affairs
Jan. 27, 1969	----------	Paul A. Volcker, New Jersey.
		General Counsel
Apr. 1, 1969	----------	Paul W. Eggers, Texas.
		Assistant Secretaries
May 15, 1968	----------	John R. Petty, New York.
Mar. 11, 1969	----------	Edwin S. Cohen, Virginia.
Apr. 1, 1969	----------	Eugene T. Rossides, New York.
June 23, 1969	----------	Murray L. Weidenbaum, Missouri.
		Deputy Under Secretaries of the Treasury for Monetary Affairs
Feb. 12, 1968	Mar. 31, 1969	Frank W. Schiff, New York.
Apr. 1, 1969	----------	Bruce K. MacLaury, New Jersey.
		Fiscal Assistant Secretary
June 15, 1962	----------	John K. Carlock, Arizona.
		Assistant Secretary for Administration
Sept. 14, 1959	----------	A. E. Weatherbee, Maine.

[1] For officials from Sept. 11, 1789, to Jan 20, 1969, see exhibit 64.

PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS OF THE DEPARTMENT OF THE TREASURY AS OF NOVEMBER 1, 1969

Secretary of the Treasury	David M. Kennedy
Assistant to the Secretary	Donald A. Webster
Under Secretary of the Treasury	Charls E. Walker
Assistant to the Under Secretary	Edward J. Gannon
Staff Assistant to the Under Secretary	Richard D. Chotard, Jr.
Under Secretary for Monetary Affairs	Paul A. Volcker
Deputy Under Secretary for Monetary Affairs	Bruce K. MacLaury
Special Assistant to the Secretary (Debt Management)	Edward J. Geng
General Counsel	Paul W. Eggers
Deputy General Counsel	Roy T. Englert
Assistant General Counsel and Chief Counsel, IRS	K. Martin Worthy
Assistant General Counsel	Charlotte Tuttle Lloyd
Assistant General Counsel	Michael Bradfield
Assistant General Counsel	Hugo A. Ranta
Assistant General Counsel	Donald L. E. Ritger
Director of Practice	William H. Sager
Director, Office of Equal Opportunity Program	David A. Sawyer
Assistant Secretary (Tax Policy)	Edwin S. Cohen
Deputy Assistant Secretary	John S. Nolan
Deputy Assistant Secretary and Director Office of Tax Analysis	Vacancy
Associate Director Office of Tax Analysis	Gerard M. Brannon
Assistant Director	Richard E. Slitor
Assistant Director	Thomas F. Leahey
Assistant Director Office of Tax Analysis and Director Office of International Tax Affairs	Nathan N. Gordon
Assistant Director	Gabriel G. Rudney
Chief Excise Taxation Staff	John Copeland
Chief Business Taxation Staff	Seymour Fiekowsky
Chief Aggregate Economic Forecasting Staff	Ralph B. Bristol
Tax Legislative Counsel	Meade Whitaker
Deputy Tax Legislative Counsel (International) and Special Assistant to Assistant Secretary	Robert T. Cole
Deputy Tax Legislative Counsel	Daniel I. Halperin
Associate Tax Legislative Counsel	John E. Chapoton
Associate Tax Legislative Counsel (International) and Deputy Special Assistant to Assistant Secretary	Robert J. Patrick, Jr.
Assistant Secretary (Economic Policy)	Murray L. Weidenbaum
Assistant to Assistant Secretary	Robert L. Joss
Director, Office of Domestic Gold and Silver Operations	Thomas W. Wolfe
Director, Office of Financial Analysis	John H. Auten
Director, Office of Debt Analysis	Edward P. Snyder

Assistant Secretary (Enforcement and Operations)	Eugene T. Rossides
Deputy Assistant Secretary	William L. Dickey
Deputy to the Assistant Secretary (Customs)	Matthew J. Marks
Special Assistant (Secret Service)	John T. Sherwood
Special Assistant (Organized Crime)	G. Gordon Liddy
Law Enforcement Coordinator	Thomas Lumbard
Interpol Chief	Kenneth S. Giannoules
Director, Law Enforcement School	John S. Stemple
Assistant Secretary (International Affairs)	John R. Petty
Deputy Assistant Secretary	Vacancy
Deputy to Assistant Secretary for International Monetary Affairs	George H. Willis
Deputy to Assistant Secretary for International Financial and Economic Affairs	Ralph Hirschtritt
Director, Office of Latin America	E. Jay Finkel
Director, Office of Industrial Nations	F. Lisle Widman
Director, Office of Developing Nations	Sam Y. Cross
Director, Office of Balance of Payments Programs, Operations and Statistics	Philip P. Schaffner
Director, Office of International Financial Policy Coordination and Operations	Charles R. Harley
Director, Office of International Gold and Foreign Exchange Operations	T. Page Nelson
Director, Office of International Economic Activities	Robert G. Pelikan
Director, Office of Administration	Leonard S. Dixon
Director, Office of Foreign Assets Control	Mrs. Margaret W. Schwartz
Fiscal Assistant Secretary	John K. Carlock
Deputy Fiscal Assistant Secretary	Hampton A. Rabon
Assistant Fiscal Assistant Secretary	Boyd A. Evans
Assistant to Fiscal Assistant Secretary	Sidney Cox
Assistant Secretary for Administration	A. E. Weatherbee
Deputy Assistant Secretary and Director, Office of Budget and Finance	Ernest C. Betts, Jr.
Director, Office of Planning and Program Evaluation	Benjamin Caplan
Director, Office of Personnel	Amos N. Latham, Jr.
Director, Office of Management and Organization	J. Elton Greenlee
Director, Office of Administrative Services	Paul McDonald
Director, Office of Security	Thomas M. Hughes
Special Assistant to the Secretary (Public Affairs)	Dixon Donnelley
Deputy Special Assistant to the Secretary	Calvin E. Brumley
Special Assistant to the Secretary (National Security Affairs)	Anthony J. Jurich
Deputy Special Assistant to the Secretary	John J. McGinnis
Special Assistant to the Secretary (Congressional Relations)	James E. Smith
Deputy Special Assistant to the Secretary	Benjamin L. Brown
Deputy Special Assistant to the Secretary	Gene A. Knorr
Senior Consultant	Henry C. Wallich
Deputy Assistant to the Secretary (Director, Executive Secretariat)	Paul R. Beach

BUREAU OF ACCOUNTS

Commissioner of Accounts	Sidney S. Sokol
Assistant Commissioner	L. D. Mosso
Comptroller	Steve L. Comings
Chief Disbursing Officer	Lester W. Plumly
Director, Government Financial Operations	Sebastian Fama

BUREAU OF CUSTOMS

Commissioner of Customs	Myles J. Ambrose
Deputy Commissioner of Customs	Edwin F. Rains
Assistant Commissioner, Office of Administration	Glenn R. Dickerson
Assistant Commissioner, Office of Investigations	Vacancy
Assistant Commissioner, Office of Operations	David C. Ellis
Assistant Commissioner, Office of Regulations and Rulings	Robert V. McIntrye
Chief Counsel	Alfred H. Golden

BUREAU OF ENGRAVING AND PRINTING

Director, Bureau of Engraving and Printing	James A. Conlon
Deputy Director, Bureau of Engraving and Printing	Donald C. Tolson

BUREAU OF THE MINT

Director of the Mint	Mrs. Mary T. Brooks
Deputy Director of the Mint	Frederick W. Tate

BUREAU OF THE PUBLIC DEBT

Commissioner of the Public Debt	Donald M. Merritt
Assistant Commissioner	H. J. Hintgen
Deputy Commissioner	J. J. Lubeley
Chief Counsel	Thomas J. Winston, Jr.
Deputy Commissioner in Charge, Chicago Office	Michael E. McGeoghegan

INTERNAL REVENUE SERVICE

Commissioner of Internal Revenue	Randolph W. Thrower
Deputy Commissioner	William H. Smith
Assistant Commissioner (Administration)	Edward F. Preston
Assistant Commissioner (Inspection)	Vernon D. Acree
Assistant Commissioner (Compliance)	Donald W. Bacon
Assistant Commissioner (Data Processing)	Robert L. Jack
Assistant Commissioner (Planning and Research)	Albert W. Brisbin
Assistant Commissioner (Technical)	Harold T. Swartz
Chief Counsel	K. Martin Worthy

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Comptroller of the Currency	William B. Camp
First Deputy Comptroller	Justin T. Watson
Administrative Assistant to the Comptroller	John Nicoll
Deputy Comptroller	John D. Gwin
Deputy Comptroller	Thomas G. DeShazo
Deputy Comptroller for Economics	David C. Motter
Chief National Bank Examiner	F. H. Ellis
Deputy Comptroller (Mergers and Branches)	R. J. Blanchard
Deputy Comptroller (Trusts)	Dean E. Miller
Deputy Comptroller (FDIC Affairs)	Albert J. Faulstich
Chief Counsel	Robert Bloom

OFFICE OF THE TREASURER OF THE UNITED STATES

Treasurer of the United States	Mrs. Dorothy A. Elston
Deputy Treasurer	William T. Howell
Assistant Deputy Treasurer	Willard E. Scott

U.S. SAVINGS BONDS DIVISION

National Director	Elmer L. Rustad
Assistant National Director	Thomas Hughes

U.S. SECRET SERVICE

Director	James J. Rowley
Deputy Director	Rufus W. Youngblood
Assistant Director (Administration)	Phil W. Jordan
Assistant Director (Investigations)	Burrill A. Peterson
Assistant Director (Protective Forces)	Lilburn E. Boggs
Assistant Director (Protective Intelligence)	Thomas J. Kelley

COMMITTEES AND BOARDS

Chairman, Treasury Management Committee	A. E. Weatherbee
Chairman, Treasury Awards Committee	Amos N. Latham, Jr.
Principal Compliance Officer	Paul W. Eggers
Equal Employment Opportunity Officer	Paul W. Eggers
Chairman, Advisory Committee on Ethical Standards	Paul W. Eggers

ORGANIZATION OF THE DEPARTMENT OF THE TREASURY

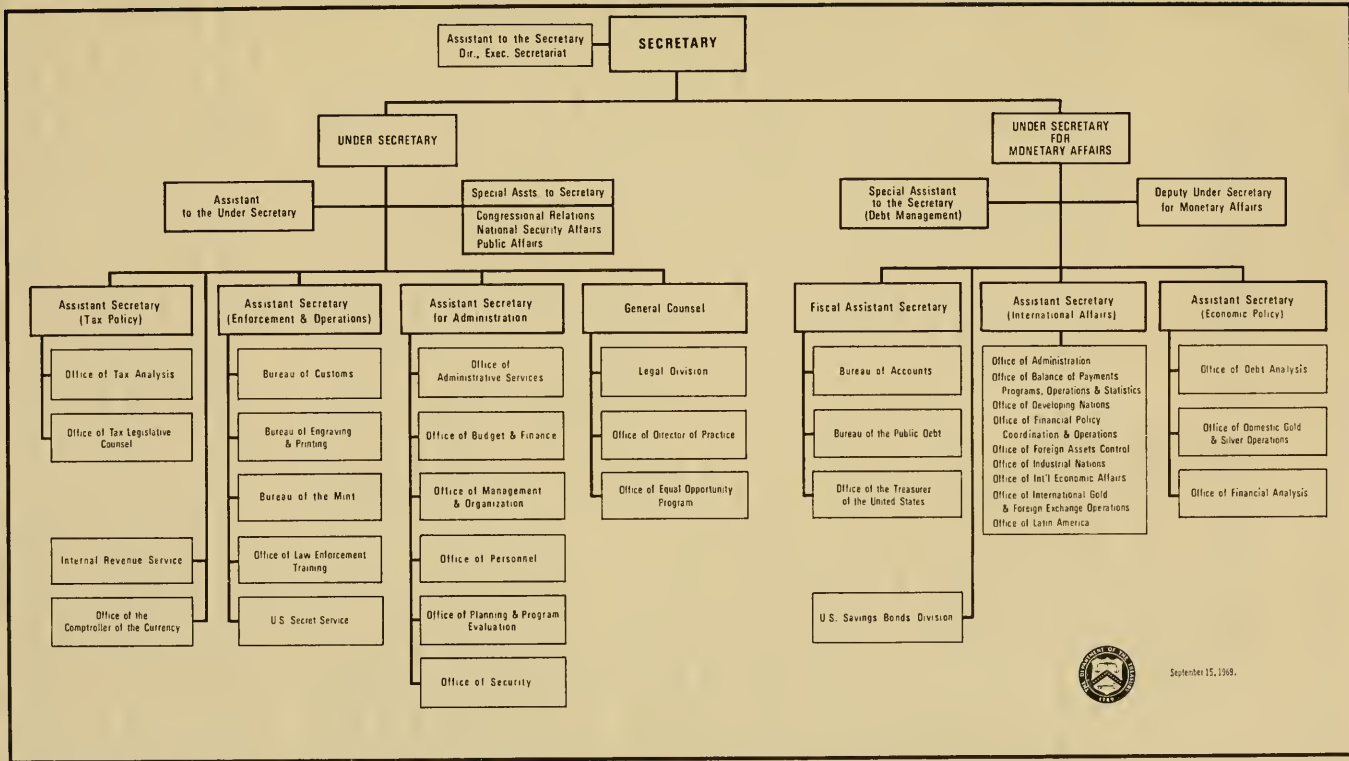

CHART 1

ANNUAL REPORT ON THE FINANCES

TREASURY DEPARTMENT,
Washington, February 4, 1970.

SIRS: I have the honor to report to you on the finances of the Federal Government for the fiscal year 1969, pursuant to the requirements of 31 U.S.C. 1027. The main text of this report and its supporting exhibits provide detailed information on Treasury Department operations and administrative activities during the fiscal year. The supporting tabular data will follow in the separate "Statistical Appendix" to this annual report. This brief introduction discusses major developments since the present administration assumed office in January 1969.

The most immediate domestic problem facing the incoming administration was an accelerating rate of inflation. Already rapidly rising prices had eroded the purchasing power of millions of Americans who counted on their Government to provide sound money. Internationally, the dollar remained strong but continued inflation at home would eventually undercut the position of the dollar abroad. Therefore, the situation in the early part of calendar year 1969 clearly required the firm application of fiscal and monetary restraint.

The administration held no illusions as to the quick and easy success of an anti-inflationary policy. By early 1969, the Consumer Price Index was rising at more than a 5-percent annual rate and inflationary expectations were widespread. To some considerable extent, the course of the economy for the calendar year 1969 was already set. There are lags in the operation of fiscal and monetary policies, and restraint applied early in 1969 could only be expected to exert its effects gradually, over time. But a policy of fiscal and monetary restraint, persistently applied, could bring the economy back onto a noninflationary course.

It was recognized that there were risks in seeking to halt the inflation abruptly. Very harsh and restrictive measures could have disrupted productive expansion and caused a prohibitive increase in unemployment. Even though the inflationary psychology might have been broken, the cost would have been too great. It was equally clear that there were risks in doing too little. The experience of 1967 and 1968 had shown that insufficient and temporary restraint would only be followed by the resurgence of inflationary pressures. Inflation had been allowed to build up a great deal of momentum by the beginning of 1969. There-

fore, it was essential that the economy be placed under firm restraint until there were unmistakable signs that stability had been restored.

This meant that the Federal budget should move into surplus while the Federal Reserve pursued appropriate complementary policies in the monetary area. The Federal budget surplus of $3.2 billion for the fiscal year 1969 was the first since fiscal year 1960 and the largest since fiscal year 1957. It marked a welcome contrast to the massive $25.2 billion deficit of fiscal 1968. Coupled with a shift to monetary restraint, the improved fiscal position helped to slow the rapid rise of the domestic economy. By mid-1969 the economy was growing in real terms at a 2 percent to 2½ percent annual rate in contrast to the clearly unsustainable pace of a year earlier.

Nevertheless, cost and price pressures continued to be very strong. The desirability of a Federal budget surplus in fiscal year 1970 was readily evident. The administration recommended that Congress: Extend the income tax surcharge at the full 10-percent rate through the first half of fiscal 1970 and at 5 percent through the remainder of the fiscal year; postpone the scheduled reductions in excise taxes on automobiles and telephone services; and repeal the 7-percent investment credit. Along with proposed user charges, these legislative steps would increase 1970 fiscal year budget receipts by an estimated $4 billion.

On the expenditure side, a determined effort was made to hold the line. In mid-April, expenditure reductions of $4.0 billion were announced from the corrected January budget totals. The summer review of the fiscal 1970 budget, completed by mid-September, called for an additional $3.5 billion in reductions. In addition, the administration directed a deferral of 75 percent of all new direct Federal construction projects and requested the cooperation of State and local governments in helping to reduce sectoral inflationary pressures in construction activity.

Expenditure restraint and congressional approval of the administration tax recommendations were counted on to produce a budget surplus in fiscal 1970—estimated during the summer at just under $6 billion. Despite deep cuts in controllable areas of expenditure, it unfortunately proved impossible to achieve a surplus of this size. Overruns in uncontrollable areas pushed expenditures higher and trimmed the estimated surplus for the fiscal year down to $1.5 billion. Even so, fiscal policy had exercised an appreciable degree of restraint throughout the year.

The combination of fiscal and monetary restraint began to show signs of increasing effectiveness during the second half of calendar 1969. Real economic growth continued to run well below the basic trend rate of capacity growth. The statistical picture was somewhat mixed but the near term outlook seemed to be one of very moderate

growth in real terms. However, relief from rising prices was slow in coming. Total demand was no longer excessive but costs and prices were still rising in response to the earlier pressures.

The delayed response in costs and prices was by no means unexpected. Previous experience suggested that costs and prices would be near the end of the chain of cause and effect after a policy of restraint had been applied. It would be important to insure that cost-price pressures were not self-reinforcing during the period while restraint was becoming effective. Total demand would have to be held below the levels that would permit markets to clear themselves at steadily rising costs and prices.

Other major developments in the fiscal area were the progress made toward tax reform and the development of administration proposals for revenue sharing. After only 3 months in office, the administration presented a set of tax reform recommendations to the House Ways and Means Committee as a first step in a thorough review of the Federal tax system.[1] These Treasury tax reform recommendations were largely independent of the efforts to cool down the overheated economy since the revenue gains and losses were essentially balanced. The approximately $4 billion in revenue gained by repeal of the investment credit, enactment of a limit on tax preferences, and correction of tax abuses would have been approximately offset by the January 1, 1970, phase-down of the surcharge, enactment of a low income allowance, and funding of revenue sharing and tax credit proposals.

The tax reform legislation developed by the Committee on Ways and Means and approved by the House of Representatives in August went somewhat further. In the House version, reform provisions adding $8.1 billion in longrun revenues would have been more than offset by $10.5 billion of rate reduction and relief provisions, thereby producing a longrun revenue loss of $2.4 billion. Subsequently the Senate Finance Committee conducted its own hearings on the proposed legislation and recommended a number of changes in the legislation. In terms of longrun revenue loss, the Senate Finance Committee bill was similar to that passed by the House. During the course of consideration on the Senate floor, however, the legislation was amended in a number of respects. The collective effect of these changes threatened to have a fairly immediate and highly inflationary impact. In the House–Senate conference, changes were made which reduced the threatened inflationary impact in fiscal 1971 by some $6 billion. President Nixon indicated that it was this action that made it possible for him to approve the legislation. The bill was signed into law on December 30, 1969 (Public Law 91–172).

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[1] See exhibits 27–30.

Another major development in the fiscal area was the administration proposal for sharing of Federal revenues with State and local governments. The details of the program were developed after close consultation with Members of the Congress, Governors, mayors, and county officials. In mid-August, President Nixon sent a special message to the Congress describing the plan. Four major features of the program were:

—The size of fund to be shared would be a stated percentage of personal taxable income;

—the allocation would be made on the basis of the State share of population, adjusted for the State's revenue effort;

—within each State the amount a local unit received would be based on its share of total local government revenue raised in the State; and

—administration requirements would be kept to a minimum.

Given the near term budget outlook, it was essential to limit very closely the amounts of funds for revenue sharing in the next few years. Under the administration proposal the fund would rise gradually from $0.3 billion in fiscal 1971 to $5.1 billion by fiscal 1976, when it would amount to 1 percent of the taxable income base. Thereafter, the fund would grow in proportion to growth in the taxable income base.

In the domestic financial area, Treasury debt management operations were conducted within an environment of rising interest rates during much of the year. Short term interest rates fluctuated narrowly from the beginning of the year until mid-May and then rose sharply until early October. After a brief respite, rates rose even further. Three-month Treasury bills were 6.14 percent at the beginning of the year, 6.10 percent at mid-May, and rose to 7.17 percent in early October before receding somewhat. By the end of November, the 3-month bill was about 7½ percent. Market yields on long term governments, corporates, and municipal securities rose fairly steadily from the beginning of the calendar year to a temporary peak in early October and were rising again in November. The upward movement in the entire rate structure during the year reflected strong private demands for credit, continuing inflation, and the effects of monetary restraint.

In contrast to some other recent periods of rising interest rates, the Federal budget did not give rise to heavy financing needs. During the first 6 months of the calendar year, there was actually a net repayment of debt to the public on the unified budget basis of $12.4 billion. This reflected the swing of the Federal budget into surplus as well as the normal seasonal pattern of debt repayment during the first half of a calendar year. Seasonal borrowing in the second half of calendar 1969 took the form of additions to the regular bill strips as well as sales of tax anticipation bills.

While the swing into budget surplus had removed the need for the Treasury to make net demands on the financial markets, it was still essential to manage the existing debt in a noninflationary manner. This meant paying the going market rate of interest and placing some amount of debt outside of the very short term area. Additional complications were introduced by the need to avoid competing too closely with savings institutions which were already under pressure from rising market rates of interest.

Financing operations were conducted successfully despite the general environment of rising interest rates. As would be expected in such an environment, a somewhat higher than normal proportion of public holdings was presented for cash redemption in the exchange offerings. For a detailed discussion of Treasury financing operations during the fiscal year 1969 see pages 11–23.

The savings bond program continued to be a key element in the sound management of the public debt. In July the Treasury announced that legislative action would be requested to permit payment of a 5-percent rate of interest on savings bonds because the existing 4¼-percent return was not competitive with other investment and savings opportunities. It was announced at the same time that the administration would seek the removal of the 4¼-percent interest ceiling on all Treasury bonds, including marketable issues. Since 1965, interest rates on longer term Government securities have continuously been above the ceiling level and the Treasury has been limited to shorter term securities such as bills and notes in its market financings. Removal of the ceiling would enable the Treasury to conduct debt management operations much more flexibly and efficiently. Congress approved only the increase to 5 percent in the rate of interest on savings bonds which was signed into law by the President on December 1, 1969.

In the international area, the year saw further evolutionary improvement of the international monetary system. Final steps were taken to establish the Special Drawing Rights facility in the International Monetary Fund. At the time of the Fund and Bank meetings in late September, general agreement was reached on the initial amounts of drawing rights to be activated. Over the next 3 years, the sizable volume of $9.5 billion of drawing rights will be created. In due course, the new asset will take its place alongside gold and reserve currency holdings in international reserves. The international community of nations will act in concert to create reserves by collective action, rather than relying on the vagaries of gold production or the continuance of deficits by reserve currency countries. The final agreement on the Special Drawing Rights, following years of painstaking study and negotiation, was a landmark in international financial cooperation.

At the same time, the major nations reached general agreement on the desirability of an increase in IMF quotas. While some details remained to be worked out at the time of this writing, there is every prospect that an increase of appropriate magnitude and distribution will be achieved. Any specific proposal for an increase in the U.S. quota will be submitted to the Congress for its consideration.

Taken together, the activation of Special Drawing Rights and a suitable increase in IMF quotas will insure that growth in international reserves and conditional credits will continue to support an expanding volume of world trade. Another forward-looking step was the decision by major countries to study, within the International Monetary Fund, the possible usefulness of introducing a somewhat greater degree of flexibility into the exchange rate mechanism.

During the course of the year, the exchange markets were subject to rather severe strains. Two major exchange rate adjustments occurred. In August the French franc was devalued by 11.1 percent. In late September and early October, during the period between an election and the installation of the new Government, the German mark was allowed to float. When the new Government assumed office, a new parity for the mark was established with the eventual revaluation amounting to 9.29 percent. As a result of these exchange rate adjustments, the international monetary system appeared to have been placed on a more secure footing. (A fuller discussion of international financial affairs during fiscal 1969 will be found on pages 36–55.)

Despite the sometimes unsettled character of the exchange markets, the two-tiered gold system continued to function very successfully during the year. A pronounced downward price trend developed late in the year in the major private gold markets. In the London market, the gold price rose from a little over $39 in the fall of 1968 to about $43.50 by the late spring of 1969. With the general improvement in the international monetary atmosphere, the free market price of gold fell, gradually at first, and then rather sharply. By the end of the year, the London gold price had fallen to the levels ruling before the establishment of the two-tiered market.

By the end of the third quarter of 1969, the U.S. gold stock stood at $11.164 billion. There was a rise of $272 million in the U.S. gold stock during the first three quarters of 1969 in marked contrast to the $1.310 billion drop during the same period of 1968.

While the dollar remained strong during the year, progress toward the achievement of a basic and lasting equilibrium in the U.S. balance of payments remained disappointingly slow. In early 1969 the administration liberalized the controls over capital transactions that had been imposed in prior years. Further progress along those lines is desirable when the balance-of-payments position permits.

In the first 6 months of the year, there was a seasonally adjusted surplus of $2.4 billion on the reserves transactions basis but a deficit of $5.5 billion on the liquidity basis. The large divergence between these measures was primarily due to the resort of U.S. banks to the Euro-dollar market under the pressures of domestic monetary restraint. The resulting flows tended to exaggerate both the official settlements surplus and the liquidity deficit, leaving neither as an entirely satisfactory measure of the underlying position. (U.S. balance-of-payments developments through mid-1969 are examined in some detail on pp. 36–41.)

Preliminary data for the third quarter 1969 showed a decline from the first half rate of deficit on the liquidity basis but a swing from surplus into deficit on the official settlements basis. Some improvement in the trade balance was evident by the third quarter and was expected to continue into 1970. The general balance-of-payments pattern for the year had been one of a weak trade balance position offset to some degree on capital account by the effects of domestic monetary tightening. The restoration of a strong trade balance will be fundamental to a satisfactory structure of the U.S. balance of payments.

From the standpoint of both the balance of payments and the domestic economy, the control of inflation remained the chief policy objective as 1969 drew to a close. Some welcome signs of progress were evident. But full success was yet to be achieved. Restraint must be continued until there are clear signs of return to a noninflationary environment.

David M. Kennedy,
Secretary of the Treasury.

To the President of the Senate.
To the Speaker of the House of Representatives.

REVIEW OF TREASURY OPERATIONS

Financial Operations

Summary

On the unified budget basis the surplus for fiscal 1969 was $3.2 billion (compared with a deficit of $25.2 billion for fiscal 1968). Net receipts for fiscal 1969 amounted to $187.8 billion ($34.1 billion over 1968) and outlays totaled $184.6 billion ($5.7 billion over 1968).

Related to the $3.2 billion surplus was a decrease in borrowing from the public of $11.1 billion (including $10.2 billion attributable to conversion of certain Government corporations to private ownership) and an increase in the cash balance of $2.2 billion, offset by an increase in other means of financing of $10.1 billion (including extraordinary credits due to the conversion to private ownership of certain Government corporations).

As of June 30, 1969, Federal securities outstanding totaled $368 billion, comprised of $354 billion in public debt securities and $14 billion in agency securities. Of the $368 billion, $279 billion represented borrowing from the public. The Government's fiscal operations in fiscal years 1968–69 are summarized as follows:

	In billions of dollars			
	1968		1969	
Budget receipts, expenditures, and lending:				
Expenditure account:				
Receipts	153.7		187.8	
Expenditures	172.8		183.1	
Expenditure account deficit (−), or surplus		−19.1		4.7
Loan account:				
Net lending		[r] 6.0		1.5
Total budget:				
Receipts	153.7		187.8	
Outlays	[r] 178.8		184.6	
Budget deficit (−), or surplus		−25.2		3.2
Means of financing:				
Borrowing from the public, decrease (−)	23.1			−11.1
Reduction of cash and monetary assets, increase (−)	−1.3			−2.2
Other means:				
Conversion of certain Government corporations to private ownership				10.2
Other	3.4			−.1
Total budget financing		25.2		−3.2

[r] Revised.

Budget Receipts and Outlays

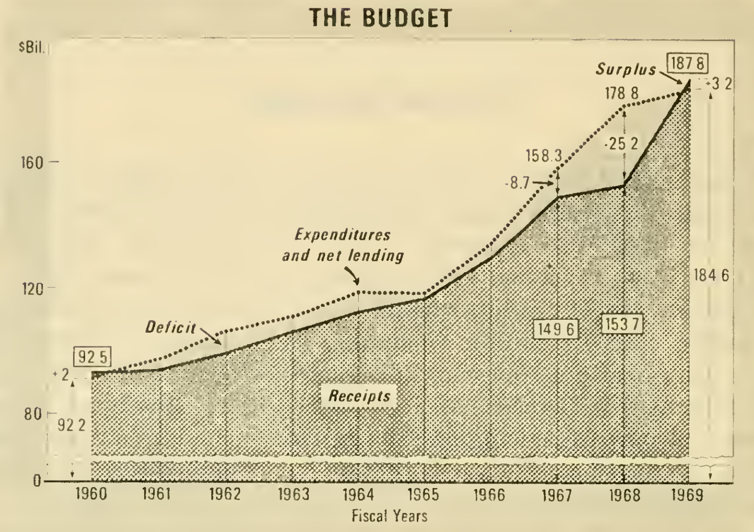

CHART 2

Receipts

Total receipts have risen in each of the last 10 years, amounting to $187.8 billion in fiscal year 1969, $34.1 billion above fiscal 1968. Receipts in fiscal 1969 were enlarged by a bunching of receipts in that year caused by the delayed enactment of the Revenue and Expenditure Control Act of 1968. Fiscal 1969 receipts were also increased by the full-year effects of the 10-percent income tax surcharges, assessed against individual taxpayers effective April 1, 1968, and against corporate taxpayers as of January 1, 1968.

In summary, Government revenues continued to expand in the fiscal year 1969 accompanying the general increase in economic activity and bolstered by the delayed enactment of the 1968 act and the income tax surcharges. A comparison of net budget receipts by major sources for the fiscal years 1968 and 1969 is shown below. Estimates of re-

[In millions of dollars]

Net budget receipts	1968	1969	Increase, or decrease (−)
Individual income taxes	68,726	87,249	18,523
Corporation income taxes	28,665	36,678	8,013
Employment taxes	29,224	34,236	5,012
Unemployment insurance	3,346	3,328	−17
Contributions for other insurance and retirement	r 2,052	2,353	301
Excise taxes	14,079	15,222	1,143
Estate and gift taxes	3,051	3,491	440
Customs	2,038	2,319	281
Miscellaneous receipts	r 2,491	2,916	425
Total budget receipts	r 153,671	187,792	34,121

r Revised.

ceipts, required of the Secretary of the Treasury, are shown and explained in the President's budget. The 1970 estimates were reviewed and revised in Bureau of the Budget releases of May 20, 1969, and September 17, 1969.

Individual income taxes.—Individual income taxes amounted to $87.2 billion in fiscal 1969, $18.5 billion above the 1968 figure. The increase of 27 percent is extremely large reflecting rising incomes, the income tax surcharge, and the bunching of receipts caused by the delayed enactment of the 1968 act.

Corporation income taxes.—Corporate income taxes also rose sharply in fiscal 1969 reaching $36.7 billion, $8.0 billion above 1968. Again, the increase in receipts was attributed to rising profits, the income tax surcharge, and delayed enactment.

Corporate profits rose about $11 billion from 1967 to 1968. These are the calendar year results which most affect the fiscal year 1968 to 1969 comparison of receipts.

Employment taxes.—Employment taxes totaled $34.2 billion in fiscal 1969, $5.0 billion above such receipts in 1968. The rise reflected expanding payrolls and number of people employed, as well as an increase in the combined tax rate from 8.8 percent to 9.6 percent effective January 1, 1969, and an increase in the wage base effective January 1, 1968.

Unemployment insurance.—Receipts from unemployment insurance again amounted to $3.3 billion in fiscal 1969.

Contributions for other insurance and retirement.—Such contributions and premiums amounted to $2.4 billion in fiscal 1969, $0.3 billion above receipts in fiscal 1968. These receipts are composed of medical insurance premiums for the aged and Federal employees retirement deductions. Receipts from each increased in fiscal 1969.

Excise taxes.—Excise tax receipts are detailed in the following table.

[In millions of dollars]

	1968	1969	Increase, or decrease (—)
Alcohol taxes	4,287	4,554	267
Tobacco taxes	2,122	2,138	16
Documents	49	1	—47
Manufacturers excise taxes	5,714	6,501	787
Retailers excise taxes (repealed)	1	(*)	—1
Miscellaneous excise taxes	1,859	2,148	289
Undistributed depositary receipts and unapplied collections	288	201	—88
Gross excise taxes	14,320	15,542	1,222
Less refund of receipts	241	320	78
Net excise taxes	14,079	15,222	1,143

* Less than $500 thousand.

Excise taxes rose from $14.1 billion in fiscal 1968 to $15.2 billion in fiscal 1969. The rise in total was $1.1 billion, over $780 million of this

occurring in manufacturers excise taxes. Other significant rises occurred in the alcohol and miscellaneous excise taxes.

Estate and gift taxes.—Estate and gift tax receipts of $3.5 billion in fiscal 1969 were $0.4 billion above receipts in 1968.

Customs.—Customs duties continued to advance in fiscal 1969 reaching $2.3 billion, $0.3 billion above 1968. The rise reflected further increases in taxable imports.

Miscellaneous receipts.—Miscellaneous receipts amounted to $2.9 billion in fiscal 1969, rising $0.4 billion from receipts of $2.5 billion in fiscal 1968. The increase was wholly due to deposits of earnings by Federal Reserve banks.

Outlays

Total outlays in fiscal 1969 were $184.6 billion (compared with $178.8 [r] billion for 1968). The outlays consisted of expenditures in the expenditure account of $183.1 billion and net lending in the loan account of $1.5 billion. Outlays for fiscal 1969, by major agency, are compared to those of 1968 in the following table. For details of the expenditure account and the loan account see the Statistical Appendix.

[In millions of dollars]

Agency	1968	1969	Increase, or decrease (−)
Funds appropriated to the President	4,913	4,967	54
Agriculture Department	[r] 7,307	8,330	1,023
Defense Department	78,673	79,145	472
Health, Education, and Welfare Department	40,576	46,599	6,023
Housing and Urban Development Department	4,140	1,529	−2,612
Labor Department	[r] 3,271	3,475	204
Transportation Department	5,732	5,970	238
Treasury Department	14,655	16,924	2,269
Atomic Energy Commission	2,466	2,450	−15
National Aeronautics and Space Administration	4,721	4,247	−474
Veterans' Administration	6,858	7,669	811
Other	[r] 10,019	8,369	−1,651
Undistributed intrabudgetary transactions	[r] −4,499	−5,117	−618
Total outlays	[r] 178,833	184,556	5,72

[r] Revised.

Cash and Monetary Assets

On June 30, 1969, cash and monetary assets directly related to the budget amounted to $13,507 million, an increase of $2,086 million over fiscal 1968. The balance consisted of $7,544 million in the general account of the Treasurer of the United States (this balance was $760 million more than June 30, 1968, and included $441 million net transactions in transit as of June 30); $4,353 million with other Government officers ($808 million more than 1968); and $1,610 million with the International Monetary Fund ($644 million more than 1968). For

[r] Revised.

a discussion of the assets and liabilities of the Treasurer's account see page 102. The transactions affecting the account in fiscal 1969 follow:

Transactions affecting the account of the Treasurer of the United States, fiscal 1969

[In millions of dollars]

Balance June 30, 1968			6,785
Less: In transit at June 30, 1968			91
Excess of deposits, or withdrawals (−), budget, trust, and other accounts:			
Deposits		201,735	
Withdrawals (−)		201,491	243
Excess of deposits, or withdrawals (−), public debt accounts:			
Increase in gross public debt		6,142	
Deduct:			
Excess of Government agencies' investments in public debt issues	8,149		
Accruals on savings and retirement plan bonds and Treasury bills (included in increase in gross public debt above)	6,270		
Less certain public debt redemptions (included above in withdrawals, budget, trust, and other accounts)	6,337		
Net deductions		8,082	−1,940
Excess of sales of Government agencies' securities in the market			4,034
Net transactions in clearing accounts (documents not received or classified by the Office of the Treasurer)			−1,928
Net transactions in transit			441
Balance June 30, 1969			7,544

Corporations and Other Business-Type Activities of the Federal Government

The business-type programs which Government corporations and agencies administer are financed by various means: Appropriations, sales of capital stock, borrowings from either the U.S. Treasury or the public, or by revenues derived from their own operations.

Corporations or agencies having legislative authority to borrow from the Treasury issue their formal securities to the Secretary of the Treasury. Amounts borrowed are reported in the periodic financial statements of the Government corporations and agencies as part of the Government's net investment in the enterprise. In fiscal 1969, borrowings from the Treasury, exclusive of refinancing transactions, totaled $13,449 million, repayments were $12,325 million, and outstanding loans on June 30, 1969, totaled $28,164 million.

Those agencies having legislative authority to borrow from the public must either consult with the Secretary of the Treasury regarding the proposed offering, or have the terms of the securities to be offered approved by the Secretary.

During fiscal 1969, Congress granted new authority to borrow from the Treasury in the total amount of $1,931 million, and reduced

existing authority by $644 million, resulting in a net increase of $1,287 million. The status of borrowing authority and the amount of corporation and agency securities outstanding as of June 30, 1969, are shown in the Statistical Appendix.

Unless otherwise specifically fixed by law, the Treasury determines interest rates on its loans to agencies by considering the Government's cost for its borrowings in the current market, as reflected by prevailing market yields on Government securities which have maturities comparable with the Treasury loans to the agencies. A description of the Federal agencies' securities held by the Treasury on June 30, 1969, is shown in the Statistical Appendix.

During fiscal 1969, the Treasury received from agencies a total of $897 million in interest, dividends, and similar payments. (See the Statistical Appendix.)

Quarterly statements of financial condition, income and expense, and source and application of funds are submitted to the Treasury by Government corporations and agencies. Annual statements of commitments and contingencies are also submitted. These statements serve as the basis for the combined financial statements compiled by the Treasury which, together with the individual statements, are published periodically in the "Treasury Bulletin." Summary statements of the financial condition of Government corporations and other business-type activities, as of June 30, 1969, are shown in the Statistical Appendix.

Government-wide Financial Management

New budget concepts.—During the year Treasury staff participated in joint efforts with the Bureau of the Budget and the General Accounting Office to complete the implementation of recommendations made by the President's Commission on Budget Concepts in October 1967. All but two of the major recommendations were implemented in the 1969 budget presented to the Congress in January 1968 and in Treasury's financial reports for fiscal 1968. The two major longer range recommendations still to be implemented involve (1) the reporting of receipts and expenditures on the accrual basis instead of the cash basis and (2) the identification of subsidies involved in Federal direct loan programs in the expenditure account of the budget.

On February 15, 1969, Secretary Kennedy met with the Director of the Budget Bureau and the Comptroller General of the United States to discuss the status of joint efforts on these recommendations. They agreed that it would not be possible to achieve the timetable recommended by the Budget Commission for conversion to the accrual basis, i.e., in the budget for 1971. It was also agreed that the conversion to the accrual basis would be given higher priority than the recom-

mendation on loan subsidies. Further efforts to implement the latter recommendation were deferred so that many agencies involved could concentrate their efforts on the development or refinement of accrual accounting systems.

On February 22, 1969, President Nixon reaffirmed the objective of converting to the accrual basis and directed that the conversion be made effective with the 1972 budget (to be submitted to the Congress in January 1971). In March the Secretary, the Budget Director, the Comptroller General, and the Chairman of the Council of Economic Advisers sent a joint letter to all agencies announcing the President's decision and stressing the need for vigorous action to meet the new target date.

Reporting accrued revenues and expenditures.—During fiscal 1969 a Government-wide pilot operation was conducted to test agency capability to report monthly, on a timely basis, selected assets and liabilities forming the bridge between the cash and the accrual bases. A steering committee representing the three central financial agencies explored special problem areas through a number of specialized task groups. Preliminary studies, begun in April 1968, on reporting unbilled contractor costs under the constructive delivery concept and on reporting accrued expenditures with respect to grant programs were completed in October 1968. A preliminary study on accruing corporate income taxes and excise taxes was concluded in January 1969.

A central agency followup team was established to provide continuous attention to the matter of Government-wide readiness to report reliable and timely accrual data. The team will continue to meet with agencies in fiscal 1970 to advise them on accounting and reporting problems and keep the steering committee apprised of current developments. In addition, a special technical advisory committee was organized to review the progress made by the Department of Defense in designing a statistical approach for determining the unbilled cost of contracts under the constructive delivery concept.

Joint financial management improvement program.—On May 28, 1969, the Secretary met with the Comptroller General, the Director of the Bureau of the Budget, and the Executive Director of the Civil Service Commission to review the steering committee's plan of action under the joint financial management improvement program (JFMIP). There was unanimous agreement to give high priority to staffing joint program projects and the steering committee was authorized to recruit a permanent executive secretary to assist in the administration of the program. A major project on auditing was approved in substance. The project is expected to cover auditing of grants-in-aid programs, auditing of agency financial statements, and

a review of internal audit facilities. Bureau of Accounts' staff continued to represent the Treasury on the steering committee and project study teams of the JFMIP. In fiscal 1969 the Treasury representative served as chairman of the steering committee and staff participated in four interagency project studies, chairing two of them. Projects involving (1) the financial administration of grants-in-aid programs; (2) procuring, paying, auditing, and settling civil agency passenger and freight transportation services; and (3) simplification of intragovernmental billing and collection procedures are expected to be completed in fiscal 1970. A project to evaluate the application, administration, and operations of the letter of credit method of financing Federal programs was completed in fiscal 1969. This study led to revision of Treasury Department Circular No. 1075 and the issuance of instructions in the Treasury Fiscal Requirements Manual which provide:

(1) That a letter of credit is irrevocable (the equivalent of cash available to the recipient organization) to the extent funds have been obligated in good faith in executing an authorized Federal program (which should help to eliminate excessive Federal cash in State accounts caused by State laws or regulations requiring that funds be on deposit in the State treasury before obligations under Federal programs can be incurred);

(2) That use of letters of credit require that the recipient organization commit itself to requesting cash drawdowns at approximately the same time checks are issued to cover program liabilities and to timely reporting required by the program agency (failure to meet these commitments will result in revocation of the unobligated portion of the letter of credit);

(3) That where determined to be advantageous, a recipient organization may be asked to authorize its commercial bank to draw on a letter of credit in its behalf when checks issued by the recipient organization are presented to the bank for payment;

(4) That advances by primary recipients to secondary recipients shall conform substantially to the standards of timing applicable to advances by Federal agencies to primary recipient organizations;

(5) That each program agency shall furnish the Treasury with reports concerning cash balances in the hands of recipients as of each June 30 and December 31; and

(6) That Treasury checks may be used for making large advances only when the benefits equal those which can be achieved by use of letters of credit.

Federal Debt Management

The primary functions of Federal debt management are to provide the funds needed to meet Federal expenditures and to refund maturing debt obligations. These objectives should be achieved in a manner which will contribute to noninflationary growth of the domestic economy and to balance in our international accounts. Secondary objectives are to establish and maintain a well-balanced debt structure, to provide debt instruments meeting the needs and requirements of an orderly securities market, to coordinate the growing volume of Federal agency and federally sponsored agency debt operations with Treasury debt management policy, and to minimize the cost of Federal borrowing.

Fiscal year 1969 began amid mounting expectations for a moderation in the pace of economic growth and a reduction in overall credit demands. On June 28, 1968, the President had signed the Revenue and Expenditure Control Act of 1968 (Public Law 90–364) which imposed a 10 percent surtax on corporate and individual incomes and provided specific limitations on 1969 budget authority and outlays. Subsequently, in August 1968 the Federal Reserve banks lowered the discount rate and in September commercial banks followed with a prime rate reduction. However, increasingly heavy demands for funds and renewed inflationary expectations returned interest rates to record levels as near record amounts were borrowed in the credit markets during July–December.

In this period the Treasury also continued to make large demands on the capital markets. While enactment of the Revenue and Expenditure Control Act had reduced the expected budget deficit from $8.0 billion to $5.0 billion, seasonally heavy July–December borrowing needs remained high in part because of a below normal $5.3 billion June 30, 1968, cash balance. Treasury demands, however, were partly offset by a slowing in the pace of borrowing by the Federal Government and federally sponsored agencies.

As the period ended yields on Treasury securities were approaching 6½ percent in the 1-year and 5-year areas. In December Federal Reserve banks returned the discount rate to 5½ percent and commercial banks, under Reserve pressures and a growing loan demand raised the prime rate twice in the month to a level of 6¾ percent.

The January budget presentation of the outgoing administration and the budget review of the new administration showed further budgetary improvements and the resulting fiscal 1969 surplus of $3.2 billion was a dramatic switch from the fiscal 1968 deficit of over $25 billion. Even so, strains on capital markets continued to increase in January–June. Yields on Treasury securities, which had risen steadily

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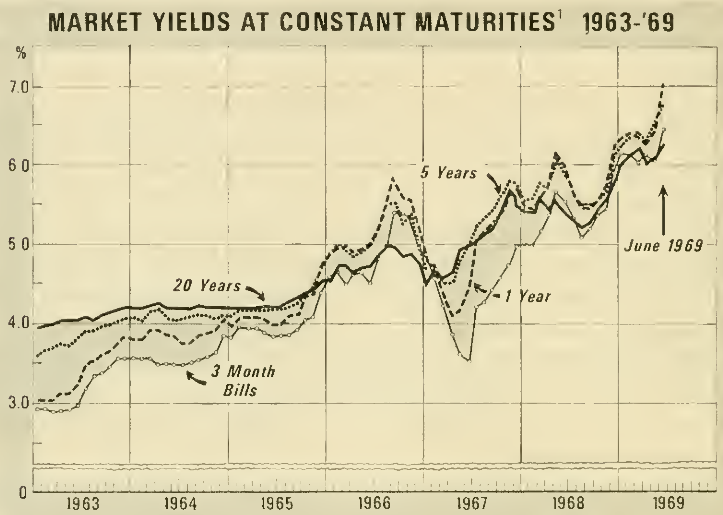
through November and December remained relatively stable until early March, when a short-lived decline set in. The upward trend was renewed in May and June and by the end of the fiscal year the 5-year rate was near 7 percent and the 1-year coupon rate was in excess of 7½ percent. Rates in other markets also reached record highs of the century as private borrowing demands remained heavy and the Federal Reserve System tightened credit. The commercial bank prime rate after increases in January, March, and June, reached a record level of 8½ percent.



[1] Monthly averages of daily market yields of public debt securities. Bank discount rates of Treasury bills.

CHART 3

In fiscal 1969, as in other years since mid-1965, the 4¼-percent interest rate ceiling on Treasury issues over 7 years continued to restrict Treasury debt management. Although 6-year or 7-year issues were offered in each of the major refinancings in fiscal year 1969, the average length of the marketable debt was shortened by 2 months to a level of 4 years at the end of the year.

CHANGES IN FEDERAL SECURITIES

By type

Federal securities include Treasury public debt issues and securities of agencies having an element of Federal ownership. On June 30, 1969, Federal agency securities included the issues of the Federal Housing Administration, Export-Import Bank, Tennessee Valley Authority, the participation certificates of the Government National Mortgage Association, and Defense family housing mortgages. Dur-

ing the fiscal year (pursuant to Public Law 90–448, approved September 30, 1968) the Federal National Mortgage Association, the banks for cooperatives, and the Federal intermediate credit banks were transferred to private ownership, thus removing their securities from the Federal debt. Excluding the holdings of these agencies, the Federal debt was $368.0 billion at the end of fiscal year 1969.

Public debt securities outstanding increased $6.1 billion during the fiscal year to a level of $353.7 billion on June 30, 1969. Marketable issues declined $0.5 billion, special issues to trust funds increased $7.4 billion; and other nonmarketable issues, matured debt, and debt bearing no interest, declined by $0.7 billion.

Ownership of Federal securities on selected dates 1959–69

[Dollar amounts in billions]

	June 30, 1959	June 30, 1967	June 30, 1968	June 30, 1969	Change during fiscal year 1969
Estimated ownership by:					
Private nonbank investors:					
Individuals: [1]					
Series E and H savings bonds	$42.6	$50.4	$51.1	$51.2	$0.1
U.S. savings notes [2]		(*)	.2	.5	.3
Other securities	23.8	20.6	22.9	24.7	1.7
Total individuals	66.3	70.9	74.2	76.4	2.2
Insurance companies	12.6	8.6	8.1	7.7	−.4
Mutual savings banks	7.3	4.1	3.9	3.3	−.6
Savings and loan associations	4.4	7.9	9.8	9.5	−.4
State and local governments	16.9	24.9	26.6	27.3	.7
Foreign and international	10.1	14.7	12.9	11.1	−1.8
Corporations	19.8	11.1	13.0	15.1	2.1
Miscellaneous investors [3]	7.4	9.9	10.8	9.6	−1.2
Total private nonbank investors	144.8	152.2	159.4	159.9	.5
Commercial banks	61.5	55.5	59.8	54.9	−4.9
Federal Reserve banks	26.0	46.7	52.2	54.1	1.9
Government accounts	52.3	71.8	76.1	84.8	8.7
Total gross debt outstanding	284.7	326.2	347.6	353.7	6.1
			Percent		
Percent owned by:					
Individuals	23	22	21	22	
Other private nonbank investors	28	25	25	23	
Commercial banks	22	17	17	16	
Federal Reserve banks	9	14	15	15	
Government accounts	18	22	22	24	
Total gross debt outstanding	100	100	100	100	

[1] Including partnerships and personal trust accounts.
[2] U.S. savings notes first offered in May 1967.
[3] Includes nonprofit institutions, corporate pension trust funds, nonbank Government security dealers, and Federal oriented agencies not included in Government accounts.
* Less than $50 million.

Including additions to the regular weekly or monthly bills but excluding the periodic refinancing of outstanding bills, the Treasury issued $53.1 billion and redeemed $53.6 billion[1] of marketable debt during the year. Included in both issues and redemptions were $10.8

[1] This figure includes the redemption of $0.4 billion in regular weekly bills and $0.4 billion of Treasury bonds for estate tax purposes not included in the disposition table on p. 23.

billion of tax anticipation bills issued and redeemed within the year to provide for the seasonal imbalance of budget receipts.

The maturity structure of the marketable debt showed a slight improvement as the amount of the under-1-year and 1-year–5-year debt declined by $2.5 billion and $1.7 billion respectively. New issues totaling $19.0 billion were placed in the 6-year–7-year maturity area during the year. Even so, the overall average life of the marketable debt shortened by 2 months over the course of the year.

Class of debt	June 30, 1968	June 30, 1969	Increase, or decrease (−)
	In billions of dollars		
Public debt securities:			
Marketable public issues by maturity class:			
Within 1 year	106.4	103.9	−2.5
1–5 years	64.5	62.8	−1.7
5–20 years	39.2	43.2	4.0
Over 20 years	16.6	16.2	−.3
Total marketable issues	226.6	226.1	−.5
Nonmarketable public issues:			
Savings bonds:			
Series E and H	51.6	51.7	.1
Other series	.1	----------	−.1
U.S. savings notes	.2	.5	.3
Investment series bonds	2.5	2.5	−.1
Foreign series securities	2.0	1.7	−.3
Foreign currency securities	1.7	2.4	.6
Other nonmarketable debt	.1	.1	(*)
Total nonmarketable public issues	58.3	58.8	.6
Special issues to Government accounts (nonmarketable)	59.5	66.8	7.3
Noninterest-bearing debt	3.2	2.0	−1.2
Total gross public debt	347.6	353.7	6.1

*Less than $50 million.

In the nonmarketable sector principal changes, other than in special issues to trust funds, were an increase of $0.3 billion in special securities issued to official foreign accounts, and an increase of $0.4 billion in Series E and H savings bonds and savings notes outstanding. The savings bonds and note increase was attributable to the automatic crediting of accrued interest. See the Statistical Appendix. Other interest-bearing nonmarketable debt, including older series of savings bonds and investment bonds, declined by $0.2 billion. Noninterest-bearing debt declined a net $1.2 billion as matured debt increased $0.2 billion and special notes held by the International Monetary Fund declined $1.4 billion. About $1.0 billion of the IMF reductions resulted from the continuing conversion of special notes to letters of credit.

The $14.3 billion Federal agency issues outstanding at the end of June 30, 1969, was $10.1 billion lower than a year earlier. The decline is entirely accounted for by the conversion to private ownership of the Federal National Mortgage Association in September 1968 and the Federal intermediate credit banks and the banks for cooperatives in December 1968. Adjusting the June 30, 1968, debt levels for the ex-

clusion of these three agencies shows a fiscal year 1969 increase of $0.8 billion in the outstanding issues of the remaining Federal agencies. The principal component of the increase was $0.7 billion in the participation certificates of the Government National Mortgage Association.

¹ Export-Import and GNMA participation certificates.

CHART 4

Ownership

At the end of fiscal year 1969 Federal securities outstanding totaled $368.0 billion, including $353.7 billion of public debt issues and $14.3 billion of Federal agency issues.

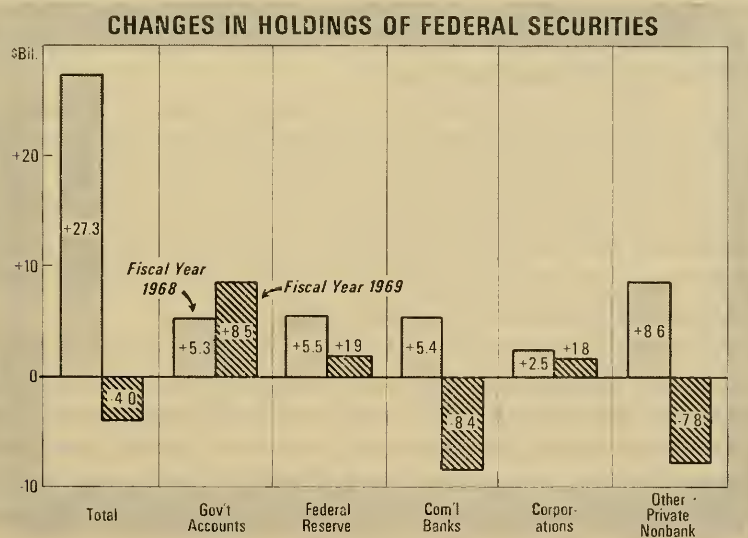


CHART 5

Government accounts and Federal Reserve banks held \$141.8 billion for 39 percent of the total. Sixteen percent or \$57.9 billion was in the hands of the commercial banks and \$168.3 billion or 46 percent was held by private nonbank investors.

Individuals.—Holdings of public debt securities by individuals increased \$2.2 billion in fiscal 1969 to \$76.4 billion. Marketable securities accounted for \$1.8 billion and Series E and H savings bonds and U.S. savings notes \$0.4 billion of the increase. Individual holdings of Federal agency issues declined \$2.8 billion to a level of \$1.2 billion. This decline in holdings of agency securities by individuals as well as by the other investors classes reflects the redefinition of Federal agency securities.

Insurance companies.—Public debt securities held by insurance companies declined \$0.4 billion during the fiscal year. Life companies reduced their holdings \$0.3 billion to a new postwar low of \$3.7 billion Fire, casualty, and marine companies liquidated \$0.1 billion which reduced their portfolios to \$3.9 billion. Life insurance companies still have a large proportion of their holdings of public debt securities in long term issues. The average length of their holdings of marketables is 17 years 4 months, down 6 months from a year earlier. The average maturity of marketable public debt securities held by fire, casualty, and marine companies declined 1 month to a level of 6 years 2 months on June 30, 1969. Insurance companies' holdings of Federal agency issues declined by \$0.2 billion to a level of \$0.8 billion.

Mutual savings banks.—Holdings of public debt securities by mutual savings banks fell \$0.6 billion to a level of \$3.3 billion in fiscal 1969, however, the average maturity of their holdings of marketable debt increased 1 month to 8½ years. Holdings of Federal agency securities fell \$0.5 billion and at the end of the fiscal year mutual savings banks held \$0.8 billion of these securities.

Savings and loan associations.—For the first time since fiscal 1954 savings and loan associations failed to increase their holdings of public debt securities as holdings declined \$0.4 billion in fiscal 1969. Despite this drop, the average length of savings and loan associations holdings of marketable debt increased 1 month to 5 years 11 months. On June 30, 1969, savings and loan associations held \$0.4 billion Federal agency issues compared to \$0.8 billion a year earlier.

State and local governments.—In fiscal 1969 State and local governments acquired nearly \$0.8 billion of public debt securities. Holdings of State and municipal pension funds and holdings of general funds each increased \$0.4 billion. About 80 percent of pension fund public debt securities are in long term issues. However, the average maturity of pension fund holdings was 17 years 10 months at the fiscal yearend

compared to 18 years 11 months on June 30, 1968. State and municipality general funds continued to invest in relatively short maturities, mainly Treasury bills. The average length of their holdings of marketable debt fell 3 months during the fiscal year to 3 years 8 months on June 30, 1969. At the end of fiscal 1969 State and local governments held \$3.8 billion of Federal agency issues. Holdings declined \$0.9 billion in the year.

Foreign and international.—Foreign holdings of public debt securities declined \$0.3 billion in fiscal 1969 to a yearend level of \$9.2 billion. Special nonmarketable securities issued directly to foreign monetary authorities increased \$0.3 billion but holdings of marketable issues declined by \$0.6 billion. Major changes in fiscal 1969 by country were liquidations of \$0.4 billion by both France and Italy, while Japanese holdings increased \$0.6 billion. On June 30, 1969, foreign investors held \$4.1 billion of nonmarketable public debt issues and \$5.1 billion of marketable issues.

Holdings of international and regional institutions fell \$1.5 billion to \$1.9 billion. Nearly \$1.4 billion of the decline was accounted for by a drop in special noninterest-bearing notes issued to the International Monetary Fund including the substitution of letters of credit for \$1.0 billion of this amount. There was also a net decline of \$0.1 billion in marketable securities held by international and regional institutions. On June 30 total international and regional holdings amounted to \$0.8 billion special noninterest-bearing notes and \$1.1 billion of marketable securities. Foreign and international investors continued to add to their holdings of Federal agency issues and showed little change in fiscal 1969.

Nonfinancial corporations.—Nonfinancial corporations increased their holdings of public debt securities by \$2.1 billion in fiscal 1969. After reaching a low of \$11.1 billion at the end of fiscal 1967, corporations have added an average of \$2.0 billion to their holdings of public debt securities in each of the past 2 years. Short term issues make up the major portion of their portfolios of Government securities and the average length of their holdings was 19 months at the end of fiscal 1969. Corporation holdings of Federal agency securities fell \$0.7 billion in fiscal 1969 to a June 30 level of \$0.4 billion.

Commercial banks.—To help meet the increased demand for business loans, commercial banks liquidated nearly \$5.0 billion public debt securities in fiscal 1969. By contrast, in fiscal 1968, commercial banks increased holdings \$4.3 billion. The larger Reserve city banks reduced their holdings of public debt issues by \$2.4 billion, while the smaller banks liquidated \$2.5 billion. The average length of commercial bank holdings of marketable Treasuries remained at 3 years at the end of fiscal 1969.

Federal agency issues held by commercial banks totaled $3.0 billion at the end of fiscal 1969 after a reduction of $3.5 billion during the fiscal year.

Other private nonbank investors.—Public debt securities held by this group of investors declined $1.2 billion to $9.6 billion on June 30, 1969. Major changes were a liquidation of $1.0 billion by Federal home loan banks and a net decline of $0.2 billion in holdings in the hands of miscellaneous investors. Holdings of Federal agency issues declined $1.3 billion to a level of $1.5 billion at the end of fiscal 1969.

Federal Reserve System.—In fiscal 1969 the Federal Reserve System acquired a net $1.9 billion of public debt issues. This was $3.6 billion less than the increase a year earlier as the System attempted to slow down the growth in member bank reserves. Holdings of Treasury bills increased $1.1 billion and coupon securities rose $0.8 billion. At the end of fiscal 1969 holdings of public debt issues in the System Open Market Account totaled $54.1 billion. The average length of the System's holdings increased 8 months to 2 years 4 months at the end of the fiscal year.

Government accounts.—Government trust funds and accounts increased their holdings of public debt securities $8.7 billion. This was $2.5 billion more than the total increase in the public debt as Government accounts absorbed part of the $4.4 billion decline in public debt securities held by private investors. Major increases occurred in the accounts of the Federal old age and survivors insurance trust fund, $2.8 billion; the civil service retirement fund, $1.8 billion; the unemployment trust fund, $1.2 billion; and the Federal disability insurance trust fund, $1.2 billion.

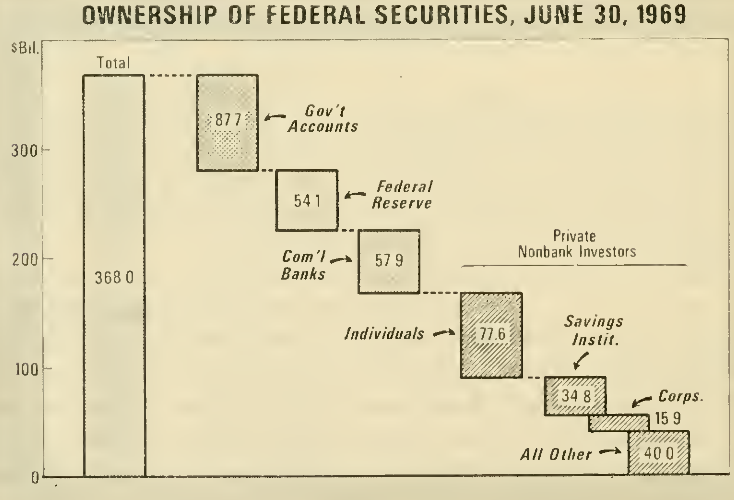


Chart 6

Total Government account holdings of public debt issues at the end of fiscal 1969 amounted to $84.8 billion. Nearly 80 percent, or $66.7 billion of the total, was special issues. About $16.0 billion of marketable issues, $2.1 billion of nonmarketable Investment Series B bonds, and a small amount of savings bonds accounted for the remaining 20 percent. Holdings of Federal agency issues fell $0.2 billion during the fiscal year to a yearend level of $2.8 billion.

FINANCING OPERATIONS

As in the previous year when the cash balance also had been reduced well below normal end-of-fiscal-year levels, the first cash financing was announced late in June for payment on July 11. A total of $4.0 billion of tax anticipation bills evenly divided between the March 24 and April 22 maturities was offered. The securities included the usual provision for acceptance at face value in payment of income taxes on the 15th day of the maturity-month and commercial banks were allowed to make payment through credit to Treasury tax and loan accounts. The average issue rates resulting from the auction were 5.40 percent for the 8-month issue and 5.42 percent for the 9-month.

At the same time the Treasury announced its intention to continue adding $100 million to the weekly sales of 6-month bills. The cycle of additions which began on April 18 and ended on October 10, 1968, raised $1.5 billion of new cash during fiscal 1969.

On July 31 the Treasury offered a 6-year 5⅝-percent note to refund $8.6 billion of August 15 maturities and to raise $1.5 billion of new cash. The security was priced at $99.62 to yield 5.70 percent and commercial banks were allowed to credit Treasury tax and loan accounts for 50 percent of their allotments.

The maturing issues were $5.9 billion 4¼-percent notes and $2.6 billion of 3¾-percent bonds. Private investors who held $3.6 billion of the maturing issues were not given preemptory rights to the new offering.

The 5⅝-percent note was well received by the market and was heavily oversubscribed allowing the Treasury to make an 18-percent allotment to large subscribers. The amount of new cash raised was $1.7 billion.

A second offering of tax anticipation bills in the amount of $3.0 billion was made to the market on October 10. The bills were to mature on June 23 and could be used at face value to pay Federal income taxes on June 15, 1969. Commercial banks were again allowed full tax and loan credit and although Treasury rates had again begun to climb the average auction rate was 5.18 percent. This was 0.22 basis points below the comparable July offering of tax bills.

In mid-October prices in the Treasury securities market rallied on the reports of progress in the Vietnam peace negotiations, but hopes

were short lived and rates again rose as the second quarter refunding approached.

The October 23, 1968, announcement offered the holders of the two November 15 maturities and the December 15 2½-percent bonds the opportunity to exchange for either a new 5⅝-percent note maturing in May 1970 or the reopened 5¾-percent note of November 1974. For the exchange the 5¾-percent note was priced at $99.85 to yield approximately 5.73 percent.

Private investors held $5.6 billion of the $11.9 billion of November and December maturities. They exchanged a total of $3.7 billion for $2.3 billion of the 5⅝ percent anchor issue and $1.4 billion of the longer note. The cash attrition was $1.8 billion or nearly one-third of the private holdings.

Interest rates continued to move higher in the face of persistent large credit demands and lack of investor interest. The November cash offering of $2.0 billion of June tax bills was auctioned at a rate of 5.49 percent—slightly above the June levels. Commercial banks were again allowed to credit tax and loan accounts in payment.

The November offering of tax bills completed the financing operations for the first half of the fiscal year: $20.6 billion of maturing issues had been refunded or redeemed and $12.3 billion of new cash had been raised.

The cautious atmosphere in the money and capital markets carried over from November into December and deepened. Yields on a wide range of obligations, including Treasury, corporate, and tax exempt securities, moved sharply higher. Early in December, in the first of two increases that month, the banks' prime lending rate was increased to 6½ percent. Later in the month, on December 17, the Board of Governors of the Federal Reserve System approved an increase in the discount rate from 5¼ percent to 5½ percent effective December 18 for all Federal Reserve banks except St. Louis, Kansas City, and San Francisco. The effective date for the latter three banks was December 20. On December 18, major commercial banks throughout the Nation announced a second round of increases in the prime rate to a record level of 6¾ percent.

Following this sharp upward adjustment in interest rates in December market psychology improved and the money and bond markets enjoyed a period of relative stability which was only briefly interrupted by another one-quarter of 1 percent increase in the prime rate on January 7. Contributing to the better tone were projected Federal budget surpluses for fiscal years 1969 and 1970, progress in Vietnam Paris peace talks, and the absence of large scale liquidation of securities by commercial banks.

The Treasury again turned to the short term market for its first cash offering of the January–June period. The June tax bills were reopened for the second time in an amount of $1¾ billion. The auction was held on January 14 and the average rate was 5.94 percent. Commercial banks were given tax and loan privileges.

On January 29 the Treasury offered a 15-month 6⅜-percent note and a 7-year 6¼-percent note in exchange for $10.7 billion 5⅝-percent Treasury notes and $3.7 billion 4-percent Treasury bonds maturing on February 15. Private investors held only $5.4 billion of the February maturities. The remainder was held by the Federal Reserve banks and Government accounts. Private investors exchanged $3.5 billion or 65 percent of their total holdings, taking $2.6 billion of the 6⅜-percent note and $0.9 billion of the 6¼-percent note. Attrition was $1.9 billion.

Late in February there was again need for additional cash financing, and the Treasury announced that it would raise $1.0 billion by adding $200 million to each of the monthend bills maturing from April to August.

In this "strip" offering subscribers were required to bid for equal amounts of each of the bills being reopened. Commercial banks were permitted to pay for their own purchases and for their customers' purchases by crediting Treasury tax and loan accounts. The average rate for the bills set in the auction was 5.91 percent.

During the second half of February investors grew pessimistic over the interest rate outlook as they weighed the possibility of further increases in the discount rate and the prime rate. The February 27 increase in the British bank rate from 7 percent to 8 percent brought about further investor caution which carried over into March. Expectations of higher rates were confirmed on March 17, when many of the Nation's leading commercial banks raised their prime rates from 7 percent to 7½ percent. This was the fourth increase in this rate since early December.

The Treasury turned to the bill market again in March to raise new cash with the announcement that around $1.8 billion would be raised in a "strip" offering by adding $300 million to six outstanding weekly series of bills maturing May 8 to June 12. Subscribers were required to take an equal amount of each of the reopened issues and commercial banks were permitted to make full payment in the form of credits to Treasury tax and loan accounts. The banks bid aggressively and the bills were auctioned at an average rate of 5.03 percent.

Data on allotments by investor classes will be found in the Statistical Appendix.

Offerings of marketable Treasury securities excluding refunding of regular bills, fiscal year 1969

[In millions of dollars]

Date	Description	Cash offerings: For new money	Cash offerings: For refunding	Exchange offerings: For maturing issues	Exchange offerings: In advance refunding	Total
1968	NOTES					
Apr. 1	1½% exchange note, Apr. 1, 1973 [1]			[2] 9		9
Aug. 15	5⅝% note, Aug. 15, 1974 [3]	1,708	8,576			10,284
Oct. 1	1½% exchange note, Oct. 1, 1973 [1]			30		30
Nov. 15	5⅝% note, May 15, 1970			[4] 7,793		7,793
Nov. 15	5¾% note, Nov. 15, 1974, additional			[4] 2,329		2,329
1969						
Feb. 15	6⅜% note, May 15, 1970			8,764		8,764
Feb. 15	6¼% note, Feb. 15, 1976			3,739		3,739
Apr. 1	1½% exchange note, Apr. 1, 1974 [1]			6		6
May 15	6⅜% note, Aug. 15, 1970			[5] 2,329		2,329
May 15	6½% note, May 15, 1976			[5] 2,697		2,697
	Total notes	1,708	8,576	27,696		37,980
	BILLS [6] (MATURITY VALUE)					
1968	Increase in 6-month bill offerings:					
	July through September	1,315				1,315
	October through December	203				203
	Total 6-month bill increase	1,518				1,518
1969						
Mar. 3	Increase in 1-year bills maturing Apr. 30–Aug. 31, 1969	1,000				1,000
Mar. 31	Increase in regular weekly bills maturing May 8–June 12, 1969	1,800				1,800
1968	Tax anticipation bill offerings:					
July 11	5.399% 256-day, maturing Mar. 24, 1969	2,015				2,015
July 11	5.426% 285-day, maturing Apr. 22, 1969	2,003				2,003
Oct. 24	5.178% 242-day, maturing June 23, 1969	3,010				3,010
Dec. 2	5.489% 203-day, maturing June 23, 1969, additional	2,001				2,001
1969						
Jan. 20	5.940% 154-day, maturing June 23, 1969, additional	1,759				1,759
	Total tax anticipation bill offerings	10,788				10,788
	Total offerings	16,814	8,576	27,696		53,086

[1] Issued only on demand in exchange for 2¾-percent Treasury bonds, Investment Series B–1975–80.
[2] Issued subsequent to June 30, 1968.
[3] A cash offering (all subscriptions subject to allotment) was made for the purpose of paying off the matured securities in cash and to raise new money. Holders of the maturing issues were not offered preemptive rights to exchange their holdings, but were permitted to present them in payment or exchange, in lieu of cash, for the new securities offered. For further details, see exhibit 1.
[4] The 2½-percent December 1963–68 bonds are included in the November 1968 refunding.
[5] The 2½-percent June 1964–69 bonds are included in the May 1969 refunding.
[6] Treasury bills are sold on a discount basis with competitive bids for each issue. The average price for auctioned issues gives an approximate yield on a bank discount basis as indicated for each series.

On April 3 the Board of Governors of the Federal Reserve System announced an increase of one-half of 1 percent in the discount rate to 6 percent effective April 4, and increased reserve requirements one-half of a percentage point against demand deposits at all member banks effective April 17. Subsequently, long term markets were bolstered by the belief that the anti-inflation programs of the Federal Reserve and the administration's recommendations for tax action,

particularly the repeal of the 7-percent investment tax credit, would prove effective.

On April 30 the Treasury announced that it would offer holders of the maturing May 15 and June 15 issues the choice of a 15-month 6⅜-percent note to yield about 6.42 percent or a 7-year 6½-percent note at par. The maturing issues eligible for exchange were a May 15 5⅝-percent note, $4.3 billion, and a June 15 2½-percent bond, $2.5 billion. Private investors held $3.9 billion of the maturing May issue and $2.1 billion of the maturing June issue. Private investors exchanged $4.3 billion: $2.1 billion for the 6⅜-percent note and $2.2 billion for the 6½-percent note. Attrition was $0.7 billion.

The exhibits on public debt operations provide further information on public debt offerings and allotments by issues in tables and representative circulars. For details on participation sales, retirements, and those outstanding see the Statistical Appendix.

Disposition of marketable Treasury securities excluding regular bills, fiscal year 1969

[In millions of dollars]

Date of refunding or retirement	Securities: Description and maturing date	Securities: Issue date	Redeemed for cash or carried to matured debt	Exchanged for new issue: At maturity	Exchanged for new issue: In advance refunding	Total
	BONDS AND NOTES					
1968						
Aug. 15	4¼% note, Aug. 15, 1968	May 15, 1967	1,494	[1] 4,442		5,936
Aug. 15	3¾% bond, Aug. 15, 1968	Apr. 18, 1962	2,212	[1] 428		2,640
Oct. 1	1½% exchange note, Oct. 1, 1968	Oct. 1, 1963	115			115
Nov. 15	5¼% note, Nov. 15, 1968	May 15, 1967	638	8,345		8,984
Nov. 15	3⅞% bond, Nov. 15, 1968	Sept. 15, 1963	346	811		1,158
Nov. 15	2½% bond, Dec. 15, 1968	Dec. 1, 1942		[2] 965		965
Dec. 15	2½% bond, Dec. 15, 1968	Dec. 1, 1942	822			822
1969						
Feb. 15	5⅝% note, Feb. 15, 1969	Nov. 15, 1967	964	9,774		10,738
Feb. 15	4% bond, Feb. 15, 1969	Aug. 15, 1962	1,000	2,728		3,728
Apr. 1	1½% exchange note, Apr. 1, 1969	Apr. 1, 1964	61			61
May 15	5⅝% note, May 15, 1969	Feb. 21, 1968	826	3,451		4,277
May 15	2½% bond, June 15, 1969	Apr. 15, 1943		[3] 1,575		1,575
June 15	2½% bond, June 15, 1969	Apr. 15, 1943	966			966
	Total coupon securities		9,444	32,519		41,965
	TAX ANTICIPATION BILLS [4]					
1969						
Mar. 24	5.399% (tax anticipation)	July 11, 1968	2,015			2,015
Apr. 22	5.426% (tax anticipation)	July 11, 1968	2,003			2,003
June 23	5.178% (tax anticipation)	Oct. 24, 1968	3,010			3,010
June 23	5.489% (tax anticipation)	Dec. 2, 1968	2,001			2,001
June 23	5.940% (tax anticipation)	Jan. 20, 1969	1,759			1,759
	Total bills		10,788			10,788
	Total securities		20,232	32,519		52,753

[1] Holders of the maturing issues were not offered preemptive rights to exchange their holdings, but were permitted to present them in payment or exchange, in lieu of cash, for new securities offered.
[2] Included in November 1968 refunding.
[3] Included in May 1969 refunding.
[4] Including tax anticipation issues redeemed for taxes in the amounts of $826 million in March 1969, $829 million in April 1969, and $2,099 million in June 1969.

Taxation Developments

Tax developments in fiscal year 1969 were concerned with (1) measures directed toward control of inflation and (2) a comprehensive tax reform program.

Control of inflation

Proposal to extend the income tax surcharge.—The temporary 10-percent surcharge on individual and corporate income taxes provided by the Revenue and Expenditure Control Act of 1968 was to expire June 30, 1969, which would mean for both individuals and corporations a surcharge of only 5 percent for the calendar year 1969.

President Johnson in his state of the Union message, January 14, 1969, indicated that the budget for the fiscal year 1970 anticipated the extension of the 10-percent surcharge beyond the June 30 expiration date. He stated that he had communicated with the President-elect with respect to the policy of continuing the surcharge beyond June 30 and the President-elect had indicated that until his administration and the Congress could examine the appropriation bills and each item in the budget, and could ascertain that the facts justified permitting the surtax to expire or be reduced, he would support the recommendation that the surtax be continued.

In the hearings which began on February 18, 1969, before the Joint Economic Committee on the 1969 Economic Report of the President, Secretary Kennedy [1] and the Director of the Bureau of the Budget emphasized the necessity for a policy of continued fiscal restraint. The latter stated, "In the absence of any significant change in our commitments in Southeast Asia and in the state of the economy, however, we continue to support extension of the surcharge as an appropriate and necessary fiscal policy in our efforts to stem the forces of inflation."

In his message of March 26, 1969, transmitting notification of proposals to be submitted to Congress relative to reduced spending and maintaining revenues, President Nixon reaffirmed his support of the recommendation that the surcharge be extended.

In addition, he recommended postponement of the scheduled reductions in the automobile and telephone excise taxes and enactment of user charges equal in revenue yield to those set forth in the budget message. (In a message of April 16 to the Congress on air transportation the President made specific recommendations for air user charges. Recommendations on highway and waterway user charges were sent by the Secretary of Transportation in identical letters of July 28 to the President of the Senate and Speaker of the House.)

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[1] See exhibit 15.

The President's proposal to repeal the investment credit, extend the income tax surcharge, and continue certain excises.—In his message of April 21, 1969, to the Congress on tax reform, the President recommended:[1] Repeal of the investment credit, effective April 21, 1969; extension of the income tax surcharge at the full 10-percent rate through 1969 and at 5 percent until mid-1970; and postponement of the scheduled reductions in excise taxes on automobiles and telephone service.

In his statement before the Ways and Means Committee on May 20, 1969, on the President's proposals, Secretary Kennedy stated[2] that the reduction in the surtax on January 1, 1970, would be possible because of the proposed elimination of the investment credit. The revenue loss from reduction of the surcharge would almost exactly offset the revenue gained from repeal of the credit.

Congressional action on the President's three proposals.—H.R. 12290, introduced on June 19, 1969, reported the next day by the Ways and Means Committee without amendment, and approved by the House on June 30, 1969, would have given effect to the President's three proposals (with the addition of certain other provisions). It provided for: (1) Extension of the income tax surcharge at 10 percent to December 31, 1969, and at 5 percent thereafter to June 30, 1970, producing a revenue yield of $7.6 billion for fiscal year 1970; (2) repeal of the 7 percent investment credit, effective as of April 21, 1969, producing a revenue increase of $1.35 billion in fiscal year 1970 and more than $3 billion in annual revenue in later years; and (3) continuation for another year of the 10-percent excise on telephone service and the 7-percent tax on passenger automobiles, producing a revenue increase of $540 million in fiscal year 1970. In addition, it included one of the provisions recommended by the President as a part of his tax reform program—a low income allowance which would remove millions of poverty level individuals from the tax rolls. It also allowed 5-year amortization of air and water pollution control facilities.

In the absence of final action by the Congress on H.R. 12290, the surcharge would expire on June 30, 1969, and in order to avoid the cessation of withholding a measure was approved on June 30, 1969, which extended withholding at tax surcharge levels through July 31, 1969 (Public Law 91–36).

Although the Senate Finance Committee held hearings on H.R. 12290 shortly after the close of the fiscal year (July 8–15) and reported the bill without amendments on July 17, 1969, no further action was taken on this bill. Some members of Congress took the position that the enactment of H.R. 12290 would relinquish leverage and relax

[1] See exhibit 27.
[2] See exhibit 28.

pressures for tax reform. It appeared that proposals to extend the surcharge and repeal the investment credit would be acted upon only as a part of the tax reform program. Secretary Kennedy, however, urged speedy action on H.R. 12290 in view of the fact that inflation was imposing a threat to the Nation's economy, and that control of inflation and tax reform were two distinctly separate problems, the former requiring immediate and urgent action while the latter, being a highly complex problem, required careful, contemplated decisions, and linking these two problems would only invite failure in both.

H.R. 9951, a measure which extended the surcharge through December 31, 1969, at the 10-percent rate, was enacted on August 7, 1969 (Public Law 91–53). This measure, however, did not include provision for (1) imposing a 5-percent surcharge for the first 6 months of 1970, (2) extending certain excise taxes, and (3) repealing the investment credit. These proposals were added by the Ways and Means Committee to H.R. 13270, the tax reform bill, which was reported by the committee on August 2, 1969, and passed by the House on August 7, 1969.

Tax reform proposals

Treasury staff proposals developed in 1968.—The Revenue and Expenditure Control Act of 1968 provided that the President was to submit to the Congress no later than December 31, 1968, proposals for a comprehensive reform of the Internal Revenue Code of 1954.

In a letter to the Speaker of the House of Representatives, dated December 31, 1968, President Johnson formally advised the Congress of the existence of the studies and proposals which were developed by the staff of the Treasury Department pursuant to this provision and of his decision to make no recommendations to the Congress in the light of the fact that he would be leaving office on January 20. The President indicated, however, that the studies and proposals would be made available to the Ways and Means and Senate Finance committees upon request. In a letter of January 29, 1969, to Secretary Kennedy, Chairman Mills of the Ways and Means Committee requested that they be made available to the committee. On January 30, 1969, Secretary Kennedy transmitted them to the chairman and they were published as a committee print in four parts entitled "Tax Reform Studies and Proposals," U.S. Treasury Department, a joint publication of the Committee on Ways and Means and the Committee on Finance, February 3, 1969 (91st Cong., first-sess.).

Tax reform proposals of the new administration.—The chairman of the Ways and Means Committee announced on January 29, 1969, that the committee would hold public hearings on the broad subject of tax reform, beginning February 18, 1969.

Under Secretary of the Treasury Walker in testimony before the Joint Economic Committee on February 19 indicated that the Treasury was interested in pressing forward with a program of tax reform and mentioned as a first concern the equitable distribution of the income tax burden.

In April, after only 3 months in office, the new administration presented to the Ways and Means Committee a comprehensive set of tax reform proposals. The President in his message to the Congress on April 21 [1] which outlined the recommendations for reform stated:

"Reform of our Federal income tax system is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden."

On April 22 Treasury officials presented the details of these proposals to the committee.[2] (A summary and technical explanation of the tax reform proposals were published as vols. 14 and 15 of the hearings of the Ways and Means Committee which were held during the period February 18 through April 24, 1969.)

The following is a brief summary of the major recommendations for reform. The net revenue change of the entire package would be small—the revenue increases of reform measures would be largely offset by the revenue losses from the relief measures.

Two of the most critical problems which the Treasury believed should be dealt with promptly were (1) maintaining confidence in the tax structure by curbing excessive use of tax preferences by some wealthy taxpayers and (2) removing the burden of the income tax from those who are below the poverty level.

To deal with the first problem the Treasury recommended a general restriction on the use of certain tax preferences in two respects:

Limit on tax preferences (*LTP*).—A 50-percent ceiling would be imposed on the amount of an individual's total income which could be exempt from tax. Total income for this purpose would be determined:

(1) By including appreciation in value of property given to charity;
(2) Before deducting intangible drilling expenses and percentage depletion in excess of cost depletion;
(3) Before deducting certain farm losses; and
(4) Before deducting the excess of accelerated over straight-line depreciation on real estate.

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[1] See exhibit 27.
[2] See exhibits 29 and 30.

In other words, an individual would be able to claim these exclusions and deductions only to the extent that the aggregate amount does not exceed one-half of his total income. A minimum amount of allowable preferences of $10,000 would be permitted.

As an example, assume a taxpayer had $100,000 of salary and $200,000 of other income sheltered from tax by tax preferences. Under present law he could exclude all the income sheltered by tax preferences and be taxed on only $100,000. Under LTP his total LTP income would be $300,000. His *allowable* preferences would be half of $300,000, or $150,000, this being the maximum amount he could exclude. He would thus be taxable on $150,000 so that $50,000 of his tax preference would have become taxable.

A 5-year carryover of disallowed tax preferences (an averaging device) would restrict the effect of this limit to persons who consistently have an excessive amount of these preferences. A 3-year transition period, establishing the ceiling at 70 percent, 60 percent, and 50 percent, respectively, would phase in the limit gradually. When fully phased in, the revenue increase would be $80 million.

Allocation of deductions.—An individual with more than $10,000 of tax preferences would also be required to allocate his itemized (nonbusiness) deductions between taxable income and the nontaxed or "allowable" portion of tax preference amounts. For this purpose, tax preferences would include the same four items of tax preference but with the addition of interest on State and municipal bonds and the excluded portion of long term capital gains (50 percent). Thus, itemized deductions could no longer be applied entirely against taxable income where there is also substantial nontaxable income.

The allocation would be phased in generally over a 2-year period. Thus, in the first year, only one-half of total itemized deductions would be required to be allocated. When fully phased in, the revenue increase would be $500 million.

To deal with the second problem, to provide essential relief to persons in poverty, the Treasury recommended a:

Low income allowance.—An additional allowance would be granted to insure generally that families at the poverty level would not be required to pay any Federal income tax. This allowance, which would be automatically built into the tax tables, would completely exempt more than 5 million individuals from tax payments, those with income below the following levels:

Number of exemptions	*Income*	*Number of exemptions*	*Income*
Family of 1	$1,700	Family of 5	$4,100
Family of 2	2,300	Family of 6	4,700
Family of 3	2,900	Family of 7	5,300
Family of 4	3,500	Family of 8	5,900

Some 7 million additional returns in the low-income group would bear a reduced rate.

The allowance in excess of the minimum standard deduction would be phased out as income exceeded the above poverty levels at the rate of $0.50 for each dollar of income over the levels. Thus, for a single person the allowance would not exempt income over $3,300; for a family of eight, it would phase out at $6,100. The allowance would be effective for 1970 and thereafter. The revenue loss from this change would be only $625 million—less than 1 percent of the individual income tax revenue.

Other reforms recommended by the Treasury included:

Mineral production payments.—The tax treatment of mineral production payments would be changed. These "production payments," sold by oil companies and other mineral producers, represent in effect advance payment for future extraction of the minerals, and they are sold to accelerate income to avoid the statutory limitations on credits and deductions, such as the depletion allowance. Henceforth, these production payments would be treated as loans, which is their true substance. Similarly, the duplication of tax benefits by such persons in retaining and selling production payments in so-called ABC transactions would be dealt with in the same way. Bona fide production payments pledged for exploration or development would not be affected. The revenue increase after the first year would be $200 million.

Private foundations and exempt organizations.—Certain specific abuses by private foundations would be prohibited:

—self-dealing between the foundation and related parties;
—failure to distribute income or a reasonable return on assets annually to charity;
—the control of operating business corporations (with a 5-year transition period for existing holdings); and
—engaging in certain political activities, such as voter registration drives.

Penalties for these abuses would be imposed, and power would be given the U.S. district courts, acting at the instance of the Justice Department in the absence of State action, to impose appropriate sanctions.

Foundations would also be required to make available for public inspection information as to grants to individuals, the activities of these individuals, and their work product.

Certain specific administrative changes would be made to provide much closer scrutiny and audit of foundation activties.

Present law taxing income from the direct operation of a business by certain tax-exempt organizations would be extended to churches and other tax-exempt organizations not currently covered. The investment income of social clubs and certain similar organizations, now untaxed, would be taxed. All tax-exempt organizations would be taxed on the income of any investment assets acquired with borrowed funds and not related to their tax-exempt functions (so-called Clay Brown bootstrap cases).

Charitable contribution deduction.—The 30-percent limitation on charitable contribution deductions would be increased to 50 percent, to apply to all taxpayers beginning in 1969.

The unlimited charitable deduction available to certain persons would be cut down. Thus, charitable contributions taken together with all other itemized nonbusiness deductions could not exceed 80 percent of adjusted gross income.

Recommendations were also made with respect to a number of situations which allow excessive tax benefits for contributions: The deduction for charitable gifts of property, the sale of which would have resulted in ordinary income, would be restricted to the cost or other basis of the property in the donor's hands; no deduction would be allowed for the rental value of property leased rent free to a charity; and no charitable deduction would be allowed for gifts of stock rights unless the shareholder allocates the basis of his old stock in part to the rights which are given to charity. The special 2-year charitable trust rule would be repealed. The repeal would mean that in all cases a grantor would be taxed on trust income where a reversionary interest will or may be expected to take effect within 10 years. Similarly, in the case of gifts of short term income interests to charity, the donor would not get a deduction unless he is taxable on the income.

Corporate securities.—In recent years there has been a rapid increase in the number and the size of mergers or other consolidations among corporations, particularly in the area of so-called conglomerate combinations. While the reasons for this development are principally nontax, there are tax aspects which require change.

Treasury recommended legislative action on a number of problems, including the installment sales reporting treatment of capital gain recognized on the receipt of bonds, the treatment of original issue discount on bonds, and the interest deduction on the repurchase by a corporation of its own convertible bonds at a premium. In addition, it was indicated that Treasury is seeking to develop a regulation to distinguish debt from equity for purposes of the interest deduction. This distinction is considered to be at the heart of the problem of the increased use of debt securities in these transactions.

Multiple corporations.—The advantage taken by a number of large corporations of certain tax relief provisions for small business, whereby a reduced corporate tax rate of 22 percent is applied to the first $25,000 of taxable income, would be ended. The change would be phased in gradually over 5 years. The revenue increase from this change, when fully effective, would be $235 million.

Farm income.—Various provisions whereby farm deductions, frequently representing the cost of assets acquired, are offset against nonfarm ordinary income, while the sale of farm assets is taxed only as capital gain, would be amended. The capital gain would be taxed as ordinary income to the extent of prior farm losses. The hobby (gentleman farmer) loss rules preventing the consistent deduction of very large losses by individuals from certain enterprises would be strengthened.

Accelerated depreciation: public utilities and others.—Tax-free dividends presently being paid out of accelerated depreciation reserves, principally by public utilities but also by some other corporations, would be made taxable after a 3-year adjustment period.

Federal and State regulatory commissions would be prevented from requiring a public utility to compute net income aftertax for ratemaking purposes as if accelerated depreciation had been taken unless the utility voluntarily elects accelerated depreciation. Utilities are forced by the position of some commissions to claim accelerated depreciation to reduce their taxes, and the benefits are flowed through to the consumers at the expense of the Federal revenues generally. This rule would have preserved the status quo and would have prevented further adoption by regulatory commissions of the "flow-through" concept except where the utility itself elects accelerated depreciation. This change would prevent an annual revenue loss which could reach $1.5 billion if this limitation were not imposed.

Stock dividends.—The practice of a number of corporations of issuing dividends in stock which increase the stockholder's interest in such a way that they are a substitute for cash dividends, rather than simply being a larger number of shares for the same interest, would be discouraged by making such dividends taxable.

Capital losses.—Net long term capital gains are in general taxed by including only one-half of the gain in ordinary income. A net long term capital loss, however, may be deducted up to an annual limit of $1,000 in full against ordinary income. The Treasury recommended that each dollar of net long term capital loss be permitted to offset only 50 cents of ordinary income. In addition, married persons filing separate returns would be subjected to an annual limit of $500

each. In the long run, this change would increase revenues by $100 million.

Restricted stock plans.—During the past few years, there has been a rapid growth in the number of restricted stock plans. Under these plans, an employee receives stock or other property subject to restrictions, on sale or other limitations. Because of these restrictions, tax is not imposed under existing rules until the employee sells the stock, and the amount then subject to tax is limited to the value of the stock when the employee receives it. In effect, any increase in value during the period the restrictions are in effect is taxed only if the stock is sold, and then as a capital gain.

Treasury proposed that, as a general matter, where an employee receives stock or other property as compensation, he should be subject to tax when his rights in that property become nonforfeitable. When an employee receives nonforfeitable rights in property subject to restrictions on sale, these restrictions would be ignored, and the amount taxed would be the unrestricted full current fair market value of the property, unless the restrictions are bona fide limitations which continue for the life of the property.

Multiple or accumulation trusts.—Under present law, income may be accumulated in trust and distributed to the beneficiary without tax to the beneficiary, with certain exceptions, even though that beneficiary pays higher tax than the trust itself. This enables creation of multiple trusts for the same beneficiary to avoid the progressive rate structure.

Treasury proposed that all income accumulated in trust be taxed at the beneficiary's regular rates when the income from the trust is received by the beneficiary. In addition, income accumulated in trust for the benefit of the grantor's spouse would be taxed to the grantor as earned, as it is under present law when it is accumulated for the grantor's own benefit. This provision would increase revenues by $70 million.

Moving expenses.—The deduction for moving expenses would be substantially liberalized to include certain indirect costs (house hunting trips, temporary living expenses at the new location, and the cost of selling or buying a house) up to a maximum of $2,500, of which no more than $1,000 could be for house hunting or temporary living expenses. The revenue loss for this change would be $100 million.

Small business Subchapter S corporations.—The existing rules permitting small business corporations to be taxed similar to partnerships to avoid the double tax on corporate earnings would be substantially liberalized.

Extension of special treatment of banks holding foreign deposits.—Interest earned on U.S. bank deposits owned by foreigners not resident in the United States and not connected with a trade or business conducted here is exempt from income tax, and the bank deposits themselves are exempt from estate tax. However, existing law provides that these exemptions shall not continue beyond 1972. The expiration date was enacted in 1966 as part of the Foreign Investors Tax Act. At the time, the Congress was concerned that termination of the exemption would have an adverse impact on foreign balances in the United States and therefore deferred the effective date for terminating the exemption for 5 years. The balance of payments continues to be a matter of concern. While the situation by 1973 cannot be forecast, it is clear that the scheduled termination will make a solution to the problem much more difficult to achieve. Accordingly, Treasury recommended that the Congress take action in accordance with the President's recommendation of April 4 that the scheduled termination of the exemption be repealed.

Congressional action on tax reform

Substantially all of these proposals, with some modifications, were included in H.R. 13270, the tax reform bill, as passed by the House on August 7, 1969.

Other legislation

Other legislation enacted during the fiscal year included the following:

Public Law 90–607, approved October 21, 1969, gives an effective date for the 1966 definition of "earned income" and provides that the new definition is to apply to pre-1968 years for purposes of the provisions of the Internal Revenue Code section 401(e) (3).

Public Law 90–619, approved October 22, 1968, revised some of the methods permitted to be used in the production of wine.

Public Law 90–621, approved October 22, 1968, permits a corporation to acquire another in a tax-free merger by giving, in exchange for stock of the acquired corporation, stock of the parent of the acquiring corporation.

Public Law 90–622, approved October 22, 1968, grants tax exemption to a foreign entity for its earnings from participation in the global communications satellite system.

Public Law 90–630, approved October 22, 1968, allows farmers amortization deductions for assessments for depreciable property levied by soil and water conservation or drainage districts and provides that denial of tax-exempt status because of unreasonable accumulations of income does not apply to an otherwise exempt *inter vivos* trust created before January 1, 1951, under certain conditions. It also makes certain

liberalization changes in losses during bottling and packaging permitted to be deducted in determining the tax on distilled spirits.

Public Law 90–634, approved October 24, 1968, amends section 103(c)(6) of the Internal Revenue Code to permit a governmental unit to elect, under certain conditions, exempt interest status for industrial development bonds of up to $5 million face value.

Administration, interpretation, and clarification of tax laws

In connection with the administration of the tax laws, the Treasury Department, during fiscal 1969, issued 37 final regulations, 1 temporary regulation, 29 notices of proposed rulemaking and four Executive orders, relating to matters including alcohol and tobacco taxes.

Among the subjects dealt with in Treasury Decisions published during the fiscal year were the computation of the percentage depletion deduction allowed against gross income from natural resources, the integration of qualified pension plans with social security, social security and withholding taxes on tips, advertising costs in political convention programs, and returns filed directly with Internal Revenue Service centers.

Notices of proposed rulemaking still pending at the fiscal yearend included those relating to interest on industrial development bonds issued by State and local governments, the tax imposed upon unreasonable accumulations of earnings by corporations, and the special tax imposed on personal holding companies.

Federal revenue sharing with the States [1]

In his message to the Congress regarding tax reform on April 21, 1969, the President stated: "The gradual increase in revenues resulting from repeal of the investment tax credit and the growth of the economy will also facilitate a start during fiscal 1971 in funding two high priority programs to which this administration is committed:

—Revenue sharing with State and local governments.

—Tax credits to encourage investment in poverty areas and hiring and training of the hard-core unemployed."

International tax matters

Legislation and regulations.—On January 17, 1969, final regulations were issued under section 482 (allocation of income between related companies), dealing with the valuation of services, thus completing these regulations except in the case of income from mineral production.

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[1] The President in his Aug. 13, 1969, message to Congress presented the details of his revenue sharing plan. The plan was incorporated in S. 2948, introduced in the Congress on Sept. 23, 1969.

Also, on January 17, 1969, proposed regulations were issued under the Foreign Investors Tax Act of 1966 dealing with income effectively connected with a trade or business in the United States.

In January 1969, regulations were issued under the revised income tax treaty with France which became effective July 11, 1968.

In April 1969, the President exercised his authority under the Interest Equalization Tax Act and issued an Executive order lowering the rate of tax from the interest equivalent of 1¼ percent to ¾ percent.

Tax treaties.—The interim income tax treaty with Trinidad and Tobago, signed in 1966 was extended, through the exchange of diplomatic notes, for 1 year through December 31, 1969, pending the completion of negotiations on a full scale treaty between the two countries.

Negotiations on a new income tax treaty with Belgium were concluded during the year. The new treaty, when signed and ratified, will replace the 1948 treaty between the United States and Belgium.

Negotiations were begun and substantially completed with Japan on a new income tax treaty to replace the existing treaty with Japan, signed in 1954.

Negotiations were initiated during the year on new income tax treaties with Iceland, the Ivory Coast, and the three countries of the East African Community—Kenya, Uganda, and Tanzania.

Agreement in principle was reached during the year with France for the French Government to refund tax to U.S. shareholders receiving dividends from French corporations equivalent to the credit (*avoir fiscal*) granted under French law to French shareholders.

Agreement was reached on an estate tax treaty with the Netherlands, and negotiations were begun on estate tax treaties with France to replace the existing treaty signed in 1946 and with Israel.

International organizations.—Treasury representatives participated in the work of the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD), which included a reexamination of the provisions of the OECD's 1963 model income tax convention, in light of member countries' experiences with the provisions, in order to make the model a more useful and relevant document. Work also proceeded in the Committee on the development of uniform withholding tax forms.

Treasury officials participated in a meeting of an ad hoc group of experts on tax treaties between developed and developing countries, which was convened under the auspices of the United Nations Economic and Social Council. The meeting provided a forum for a clarification of the positions of the two groups of countries involved, and considerable progress was made in developing approaches which reconcile the differences in views.

The U.S. delegation to the third annual meeting of the Inter-American Center of Tax Administrators (CIAT) included representatives of the Treasury Department. The central theme of the conference was "Planning in Tax Administration."

International Financial Affairs

The U.S. balance of payments

In the first half of fiscal 1969 (July–December 1968) both summary measures of the U.S. payments position were in surplus, on a seasonally adjusted basis, amounting to:

—$723 million on the liquidity basis; and
—$464 million on the reserve transactions basis.

These circumstances reflected an unusual combination of favorable developments in the capital account. Taking U.S. Government and private U.S. capital outflows together, net of nonspecial long term foreign capital inflows, the net capital outflow from the United States was reduced to only $205 million. In addition, U.S. receipts from "special" medium term security purchases and deposits of foreign governments and international organizations were very large in this period, totaling $1.0 billion. Also, an unusual, positive, "errors and omissions" balancing item of $249 million may have been associated with unrecorded capital inflows to the United States.

This unusual combination of positive capital account developments, traceable in substantial part to the international currency and political uncertainties abroad, the first-year effects of the mandatory 1968 U.S. direct investment program, and foreign interest in the buoyant U.S. stock market, more than offset a substantial deterioration in the U.S. current account position. Thus, in the first half of fiscal 1969 the capital accounts were in surplus by $1.1 billion, while the U.S. current account position was in deficit by $330 million. This situation represented a marked, but in good part temporary, contrast to the past, which showed, usually, current account surpluses and capital outflows.

Most of the current account deterioration in July–December 1968 was in the U.S. trade accounts, which were adversely affected by domestic strikes, and anticipation of strikes, as well as by the development of excessive, inflationary demand pressures within the United States. Payments of interest and dividends to foreign residents also increased, reflecting higher U.S. interest rates and a larger volume of foreign claims on U.S. residents.

In the following 6 months (January–June 1969) the official reserve transactions measure and the overall liquidity measure were heavily distorted, in opposite directions, there was:

—a surplus of $2.4 billion on the reserve transactions basis; and
—a deficit of $5.4 billion on the liquidity basis.

representing a net $7.8 billion divergence for this half year in the two summary measures.

Substantially, this large divergence between the two indicators of our external position reflects the differing treatment under these two measurements of the unprecedentedly large short term Euro-dollar borrowings—about $7.7 billion—by our domestic banks from their branches abroad.

On the official reserve transactions basis these U.S. borrowings from private foreigners are recorded as a capital receipt (a plus item) by the United States.

On the overall liquidity basis, such short term borrowings are recorded along with changes in our gold holdings, convertible currencies, and IMF position, as a "below-the-line" element financing a deficit, rather than a capital receipt.

Both measures significantly reflect distorting—and possibly temporary—effects attributable to the shift within the United States to unusually tight financial market conditions.

The large January–June adverse liquidity balance reflected in part an outflow of private U.S. capital in response to the high interest rates on Euro-dollar deposits associated with the unprecedented volume of Euro-dollar borrowing by U.S. banks.

The substantial surplus on official reserve transactions during the January–June period reflected the effects of this same demand of U.S. banks for Euro-dollar funds in attracting to the Euro-dollar market not only dollars currently passing into foreign hands as a result of our liquidity deficit, but also dollars previously held in foreign official accounts.

On merchandise trade, a surplus of $2.1 billion for fiscal 1968 was followed by a surplus of only $178 million in the fiscal year 1969. The last three quarters of fiscal 1969 were in deficit.

This erosion of U.S. net earnings on commodity trade reflected both some special circumstances during fiscal 1969, and the cumulative effects of the excessive demand pressures within the United States.

Excess domestic demand has spilled over into unusually large increases in U.S. imports; and the persistent inflationary forces set in motion by such excess demand have also had an adverse impact on U.S. price and cost competitiveness.

A dock workers strike from late December through early March in east coast and gulf ports affected the U.S. trade balance unfavorably, with exports being affected relatively more than imports.

Operations under the Canadian Auto Agreement also contributed to the decline in the fiscal 1969 trade balance.

On travel account, including net tourist and business payments for transportation as well as expenditures abroad, the U.S. deficit in fiscal 1969 was $1.9 billion, with no significant change between the first and second halves. Compared with fiscal 1968, U.S. net expenditures on travel for 1969 were down by $153 million, reflecting among other factors the return to a more normal situation after Expo 67 in Montreal, which had attracted an unusually large number of American tourists to Canada during calendar year 1967.

On military account, representing the net of U.S. military expenditures abroad and U.S. military sales, net expenditures in the second half of the fiscal year 1969 were $1.7 billion. For the full fiscal year net military expenditures abroad were $3.2 billion, about the same as fiscal 1968, a $258 million rise in U.S. receipts from foreign governments in connection with military sales being slightly exceeded by a rise in U.S. payments.

On other current account items (principally private and Government receipts and payments of investment income; private remittances and Government grants and pensions; and freight and other miscellaneous services) the United States had net receipts of $1.9 billion in the first half of the fiscal year and $2.0 billion in the second half; this compared with net earnings of close to $4.2 billion in fiscal 1968.

Particularly important were increases in U.S. income on direct investments, and in U.S. payments of income on foreign long and short term capital held in the United States. The increases in foreign income from investments here reflects both the increase in the size of such investments and higher rates of return.

Taking the current account as a whole, including trade, travel, military expenditures, investment income, other services, and U.S. Government grants and transfers, the U.S. deficit in fiscal 1969 was $1.0 billion, compared with a surplus of $1.1 billion in the previous fiscal year.

During fiscal 1969, the current account deficit increased from $0.3 billion in the first half, to $0.7 billion in the second.

On the capital account, the recorded U.S. position shifted from a very favorable surplus of $0.8 billion in the first half of fiscal 1969, to a deficit of $2.6 billion in the second half, taking Government and recorded private capital flows together. Unrecorded transactions—the errors and omissions residual (probably also reflecting capital move-

ments to an unusual degree during this period)—shifted from an inflow of $250 million in the first half of fiscal 1969 to an outflow of $2.1 billion in the second half. The net balance on these unrecorded flows plus the recorded capital accounts showed a surplus in the first half of the fiscal year of $1.1 billion, and a deficit of $4.6 billion in the second half.

Total reported outflows of private U.S. capital (on direct investment, bank credits to foreigners, U.S. transactions in foreign securities, and nonbank credits to foreigners, including short term funds held abroad by U.S. corporations) were $2.8 billion in the first half of fiscal 1969 and $3.3 billion in the second half. In comparison, the outflow of such private capital was $1.1 billion the year before.

Gross direct investment outflows rose substantially in the course of fiscal 1969—from $1.5 billion for July–December 1968 to $2.0 billion for the January–June 1969 period. However, some of these outflows were financed by funds obtained from the sale of U.S. corporate securities to foreign residents; netting such funds against gross outflows, actual use of U.S.-source funds for direct investment purposes rose from about $1.0 billion in the July–December 1968 period to $1.7 billion in the January–June period. This increase, however, reflected the fact that July–December outflows were substantially reduced by U.S. corporations, to assure their compliance with the 1968 mandatory ceiling on investment outflows. As some corporations at the end of calendar year 1968 were not in a position to determine the size of their transactions subject to the ceiling before their accounts were closed for that year, their net outflows from the United States may have been abnormally reduced at the yearend and subsequently increased again.

Capital outflows reported by U.S. banks were $210 million in the first half of fiscal 1969 and $404 million in the second half, due entirely to increased short term credits. For the fiscal year as a whole, short term bank claims on foreigners increased by over $900 million, compared with small reductions the year before. Much of the recent U.S. outflow was focused on the April–June 1969 period and apparently was associated to a significant degree with the $2.1 billion surge in U.S. exports in that period from the strike depressed January–March level. A substantial part of the increase in bank claims was in trade acceptances and collections.

Nonbank claims on foreign residents (including short and long term credits, funds held abroad in short term form by U.S. corporations, and net short term claims of U.S. brokerage concerns on foreign residents) increased by $268 million in the July–December 1968 period and $134 million in the January–June 1969 period. These outflows were markedly lower than the $1.4 billion outflow recorded for the

fiscal year 1968. The reduction was focused largely on short term U.S. corporate claims on foreigners, which had been reduced markedly after mid-1968. These short term U.S. corporate claims substantially represented the proceeds of long term security issues sold by U.S. corporations to foreign residents to finance U.S. corporate direct investment abroad; pending the direct investment expenditures, a substantial part of the funds had been held in short term form abroad.

With the change in financial conditions here and abroad, such short term corporate holdings abroad were drawn down, not only for use for direct investment abroad but also, in part, for use domestically, as conditions within the United States tightened.

U.S. purchases of foreign securities were $800 million in the first half of fiscal 1969 and $750 million in the second half. These net purchases were, substantially, acquisitions of IET-exempt new issues of Canadian bonds. On redemptions and other transactions in outstanding foreign securities, the United States continued to experience net capital inflows. However, these inflows fell to $35 million in the second half of the fiscal year. The reduction in net inflows probably was associated with a number of factors, including speculative U.S. purchases of foreign mining shares, the increasing attractiveness of some foreign equities, particularly Japanese and those of foreign firms participating in the Alaskan north slope oil discovery. The reduction of the IET rate on April 4, 1969, may also have been a factor.

Net U.S. Government capital transactions, including foreign repayments of past loans and nonspecial capital receipts associated with specific transactions, were about $450 million in the first half of fiscal 1969, and $660 million in the second half, a substantial reduction compared with the $1.9 billion net outflow on these accounts in the prior year.

U.S. Government and other special receipts of foreign capital (including international organization purchases of U.S. agency obligations, international organization and foreign government purchases of long term bank certificates of deposit, and purchases of special Treasury securities not associated with specific transactions) were about $400 million in fiscal 1969. However, there was a sharp turnaround during the course of the fiscal year, from inflows of $1.0 billion for the July–December 1968 period to outflows of $0.6 billion for January–June 1969. In part, this change may reflect the drain of foreign official dollar holdings to finance private foreign investments in the Euro-dollar market; it also reflects U.S. emphasis on a more fundamental strengthening of the U.S. payments structure.

On other foreign capital (including particularly foreign purchases of U.S. stocks and corporate bonds and foreign direct investment in the United States, and excluding special transactions), the United

States had a capital inflow of $5.1 billion in fiscal 1969, a further increase over the $3.8 billion inflow of the year before. However, this inflow decreased during the last half of fiscal 1969. This may have reflected the effects of continued decline over most of the period in prices of U.S. stocks, which had attracted substantial foreign purchases during the 1968 market rise; the considerable uncertainty during that period about the fate of the tax surcharge and, thus the prospects for longer term U.S. interest rates; and the very high Eurodollar market yields on short term dollar deposits which, in this unusually uncertain economic situation, offered an attractive temporary alternative for investible funds. Also, sales of U.S. corporate securities abroad for direct investment purposes fell sharply during the January–June period.

The framework for a new balance-of-payments policy was set forth on April 4, 1969, in a statement by President Nixon on the balance of payments.[1] The objectives of that policy are to create the conditions that make it possible to rebuild the U.S. trade surplus by restoring stable and noninflationary economic growth to the U.S. economy, and, ultimately, to dismantle the network of controls. As an initial step toward the latter goal, on April 4 the IET was reduced from an effective rate of 1¼ percent to three-quarters of 1 percent; the controls on foreign direct investment were relaxed somewhat; and the Federal Reserve program was modified to provide more flexibility for commercial banks, particularly smaller and medium sized banks, to finance U.S. exports.

The international monetary system

Fiscal year 1969 was marked by progress toward the establishment of a facility for Special Drawing Rights (SDR), as a number of countries ratified the SDR Amendment to the Articles of Agreement of the IMF. While there were two speculative flurries on the world's foreign exchange markets, the two-tier gold market was consolidated and gold speculation did not become an important part of these flurries.

In the last half of fiscal 1968 the overwhelming majority of the International Monetary Fund's Governors agreed on the text of the proposed amendment to the Fund's Articles of Agreement. It was then transmitted to member governments for the necessary action to permit formal acceptance of the proposed amendment and participation in the new Special Drawing Rights facility. On July 15, 1968, the Secretary of the Treasury formally notified the Fund that (a) the United States accepted the proposed amendment and (b) the United States undertook all of the obligations of a participant.[2] Throughout the year, other

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[1] See exhibit 40.
[2] See exhibit 51.

U.S. balance of payments, fiscal years, 1968–69

[In millions of dollars]

	Fiscal year 1968 [1]	Fiscal year 1969		
		Full year [1]	Seasonally adjusted July–Dec. 1968	Seasonally adjusted Jan.–June 1969
Trade	2,132	178	238	−110
Exports	31,653	34,343	17,262	17,057
Imports	−29,521	−34,165	−17,024	−17,167
Travel (including fares)[2]	−2,030	−1,877	−935	−940
Receipts	1,947	2,195	1,039	1,158
Payments	−3,977	−4,072	−1,974	−2,098
Military	−3,184	−3,223	−1,542	−1,672
Receipts	1,252	1,510	770	749
Payments	−4,436	−4,733	−2,312	−2,421
Dividends and interest	6,011	6,047	3,098	2,936
Receipts	8,605	9,513	4,617	4,906
Payments	−2,594	−3,466	−1,519	−1,970
Other services and transfers, including Government grants	−1,858	−2,126	−1,189	−934
Current Account Total Including Unilateral Transfers	1,071	−1,001	−330	−720
Direct investment	−3,408	−3,529	−1,545	−2,029
(Of which, financed by U.S. corporate bond issues abroad, included in the "Foreign capital" line below)[3]	(−373)	(−860)	(−552.2)	(−308)
Bank claims	144	−614	−210	−404
Short term	32	−944	−379	−565
Long term	112	330	169	161
Nonbank claims	−1,420	−400	−268	−134
Short term	−1,373	−131	−92	−41
Long term	−47	−269	−176	−93
U.S. transactions in foreign securities	−1,249	−1,541	−792	−749
New issues	−1,628	−1,700	−917	−784
Outstanding issues and redemptions	379	159	125	35
U.S. Government capital, net	−1,873	−1,113	−452	−657
Foreign capital (excluding liquid liabilities and "special" receipts)	3,820	5,082	3,062	2,020
"Special" receipts of foreign capital [4]	784	405	1,010	−614
Errors and omissions	−1,119	−1,865	249	−2,077
Balance on liquidity basis, seasonally adjusted			723	−5,364
Less: seasonal adjustment			393	−459
Balance on liquidity basis (seasonally unadjusted)	−3,257	−4,575	330	−4,905
Balance on official reserve transactions basis: [5]				
Seasonally adjusted			464	2,386
Not seasonally adjusted	212	2,921	−3	2,924
Balance on liquidity basis (seasonally unadjusted, signs reversed)	3,257	4,575	−330	4.905
Increase in short term Treasury and banking liabilities to foreigners and in foreign holdings of marketable U.S. Government bonds and notes	2,609	6,714	1,427	5,287
Of which:				
To foreign holders, other than official	(5,034)	(8,383)	(868)	(7,515)
To foreign official holders	(−2,425)	(−1,669)	(559)	(−2,228)
Net sales of nonmarketable, medium term convertible securities	437	−145	−110	−35
Decrease in U.S. monetary reserve assets	211	−1,994	−1,647	−347
Of which:				
IMF gold tranch position	(−536)	(−646)	(−387)	(−259)
Convertible currencies	(−1,741)	(−876)	(−1,049)	(173)
Gold	(2,488)	(−472)	(−211)	(−261)

[1] Seasonally adjusted half-fiscal-year data do not add to full fiscal year data. Seasonal adjustment factors were not forced.

[2] Fares are estimated for 1969.

[3] Does not include all U.S. corporate borrowing abroad to finance U.S. direct investment abroad.

[4] "Special" receipts of foreign capital are defined here to include international organization purchases of U.S. agency obligations, purchases of medium term bank certificates of deposit by international organizations and foreign governments, purchases by foreign governments of special nonmarketable Treasury securities not associated with specific transactions, advance payments on military sales, and net extensions or repayments of U.S. Government credits financing military sales.

[5] Balance on official reserve transactions basis equals balance on liquidity basis minus changes in liquid dollar liabilities to foreigners other than official national institutions plus changes in certain nonliquid liabilities to official national institutions.

Source.—Department of Commerce, "Survey of Current Business," June and September 1969.

countries notified the Fund of their acceptance and deposited instruments of participation. The amendment entered into force on July 28, 1969, when the requirement was met that three-fifths of the Fund's members (67 countries) representing at least 80 percent of the total voting power notify the Fund of their acceptance. The final step preliminary to establishment of the Special Drawing Rights facility was completed shortly thereafter, when countries representing 75 percent of the Fund's quotas deposited instruments of participation. Late in fiscal 1969, the major industrial countries began to discuss the need for activitation of the SDR facility. It was generally agreed that early activation of the facility in significant amounts would be beneficial to the international monetary system.

The last half of fiscal 1968 was also marked by the dissolution of the "gold pool" and the institution of the two-tier gold system. The drain on the gold reserves of monetary authorities ceased. Despite retention by South Africa of a substantial part of new South African gold supplies, the commodity gold market was not unduly active. The market price varied between $36.70 and $42.60. During the Annual Meeting of the International Monetary Fund, the Central Bank Governors of Belgium, Canada, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States met and reaffirmed their support of the Washington Communiqué of March 17, 1968. They also agreed on a common position to reach agreement with South Africa on this position. While discussions with the South Africans continued, no agreement was reached during fiscal year 1969.

The Ministers and Central Bank Governors of the Group of Ten met during the Annual Meeting of the International Monetary Fund, as is customary. The principal agenda item was the midterm review of the General Arrangements to Borrow (GAB). The participants agreed that no changes in the GAB were necessary in the last 2 years of its current 4-year term. The Ministers and Governors instructed their Deputies to continue their regular meetings in order to keep the functioning of the international monetary system under close review. Dr. Schiller, Minister of Economics of the Federal Republic of Germany, was elected Chairman of the Group of Ten for the following year. See exhibit 33.

During September prior to the Fund's annual meeting, selling pressure on the French franc was renewed, after a lull during the summer. This reflected some uncertainty as to whether the official franc parity would be maintained in light of the large wage increases that had been

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negotiated following the "events of May." The pressure was accentuated by rumors that the Deutsche mark would be appreciated. Selling pressure on the franc and demand for Deutsche marks reached a crescendo in mid-November. Sterling also became subject to selling pressures. To prevent accelerating losses of reserves, the major European exchange markets were closed beginning November 20, and a special meeting of the Group of Ten was called by Chairman Schiller.

The primary objective of the United States, supported by the other Ministers, was to obtain assurances that the pressures of the crises would not result in any excessive exchange rate adjustment that would seriously undervalue any currency and introduce the threat of cumulative or competitive devaluations.

The decisions associated with the November meeting did not result in any immediate exchange rate adjustments although the Ministers agreed that a moderate devaluation of the French franc would not be harmful to the system. The German authorities proposed, as their principal contribution to reducing the German surplus, an adjustment in border taxes having effects somewhat similar to a 4-percent revaluation of the Deutsche mark but applicable only to trade in physical goods. They estimated that this measure would reduce Germany's trade surplus in 1969 by about one-fourth. The French decided on November 23, to maintain the value of the franc without change. France also announced measures of internal restraint, restored tight exchange controls, and made limited adjustments in border taxes designed to strengthen its trade position. At the same time, a large multilateral credit arrangement, amounting to $2 billion, was established by the monetary authorities of the Group of Ten, Switzerland, Norway, Denmark, and the Bank for International Settlements, to support the French franc. The authorities of the United Kingdom introduced a system of import deposits, increased internal taxation, and imposed additional credit restraints as a means of assuring their balance-of-payments objective of a substantial surplus by the end of 1969. See exhibits 33 and 36.

Foreign exchange operations [1]

Twice during the fiscal year the international monetary system was severely strained by massive movements of funds, in November 1968 and again in May 1969, when it appeared to the market that parity changes in one or more of the major foreign currencies were imminent. In contrast with the previous year, there was no significant speculation on a change in the $35 per ounce monetary price of gold, and no recurrence of the rush by private parties to buy gold. The dollar,

[1] Detailed reports on Treasury and Federal Reserve foreign exchange operations are contained in the March and September issues of the "Federal Reserve Bulletin" and the "Monthly Review" of the Federal Reserve Bank of New York.

because of its importance in financing world trade, and its widespread use in exchange transactions between other currencies, and by foreign monetary authorities to maintain the stability of their own currencies, was inevitably involved in the shifts of funds across the exchanges. The foreign exchange operations of U.S. authorities—the Treasury and the Federal Reserve System—mainly supplemented those of other countries, absorbing dollars temporarily flowing to some while supporting currencies of others experiencing speculative outflows and reserve drains which threatened the stability of the monetary system.

On the whole, the dollar showed increasing strength in the markets during the period. Restrictive credit policies undertaken to combat inflation in the United States led to short term capital inflows, which were a major factor in the improvement of the balance of payments as measured on an official settlements basis. Several other countries, in order to stem capital outflows, prevent drains on monetary reserves, and support their currencies in the exchange markets, pursued comparable monetary policies, and as a result there was a sharp increase in world interest rates, particularly in rates in the Euro-dollar market.

The stronger position of the dollar permitted the United States to restore its full gold tranche position in the International Monetary Fund, for the first time since the United States began drawing on the Fund in 1964, by a series of voluntary repayments late in 1968;[1] this, in effect, added dollars to the reserves of countries whose currencies were used by the United States for repayments to the Fund. Following repayment, the United States has gone on to build up a creditor position in the Fund, further helping to meet the growing requirements for dollars on the part of other countries and strengthening the overall monetary reserves of the United States.

The principal cause of the uncertainties in the exchange markets was the widespread anticipation of a revaluation of the German mark. The prolonged and large surplus on current account in the German balance of payments, combined with the difficult problems experienced by a number of other countries in overcoming deficits, called increasing attention to the question of maintaining present currency parities.

Anxieties had been heightened by the French civil disturbances in May 1968 and the speculative drain on the French franc which followed. In July the Federal Reserve increased its swap facility with the Bank of France from $100 million to $700 million, in connection with the establishment of an additional $700 million of Central Bank credit lines provided France by other countries. During the summer and early fall, France made periodic use of these credit facilities, and in addition sold gold to finance its balance-of-payments deficit

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[1] See exhibit 53.

and obtain dollars to support the franc in the market. The Bank of England also made periodic drawings on its credit facilities, as pressures on sterling mounted from time to time.

The British balance of payments had been slow to show recovery following the devaluation of sterling in November 1967. Because of the special vulnerability of sterling as a reserve currency, negotiations were undertaken on an arrangement, which became effective in September 1968, providing a $2 billion credit line to the Bank of England during a 3-year period to compensate for declines in sterling holdings in the Overseas Sterling Area. Following a 2-year grace period, repayments of any outstanding credits will be made over the succeeding 5-year period. In connection with this arrangement, the Bank of England agreed to guarantee the dollar value of the bulk of sterling reserves held by such countries. The U.S. commitment under this arrangement, $650 million, has been undertaken by the U.S. Treasury; none of this was drawn upon during the period. The British authorities, however, made some use of other resources available under the arrangement, most of which was repaid by June 1969.

The Belgian franc, the Netherlands guilder, and the Italian lira also tended to weaken in the exchange markets during the summer and early fall of 1968, while the Swiss franc and the German mark maintained very strong positions. To help finance the cost of supporting their currency, the Belgians utilized funds drawn on their swap arrangement with the Federal Reserve for the first time since 1963. The Federal Reserve, in turn, drew on its arrangement with the Swiss National Bank in order to cover inflows to Switzerland. In October, the Federal Reserve and the Bank of Italy increased their reciprocal swap arrangement from $750 million to $1 billion.

The foreign exchange crisis of November 1968 involved primarily speculation on a devaluation of the French franc and a revaluation of the German mark. This was dealt with by a decision on the part of the German authorities to impose a combination of border taxes on exports and tax rebates on imports; a French pronouncement that the franc would be defended at its present level, aided by exchange controls and a new $2 billion credit package provided by the other members of the Group of Ten; [1] and by the institution of new domestic credit and tax measures by the United Kingdom to reinforce sterling, which was also subjected to pressure by the speculative flows into DM.

At the height of the crisis there were substantial drawings by the Bank of France and the Bank of England under various credit arrangements. The Federal Reserve drew on its swap line with the

[1] As parts of this credit package the Federal Reserve increased its swap line with the Bank of France from $700 million to $1 billion, and the Treasury provided a $200 million line of credit to the Bank of France. See exhibit 36 for the Communiqué issued by the Group of Ten.

Bundesbank to finance sales of DM, both spot and forward in the New York market, and also increased its drawings on the Swiss National Bank to cover flows to Switzerland. Subsequently, the Bundesbank encouraged reflows to the Euro-dollar market by selling dollars to German banks on a swap basis with forward cover provided at preferential rates. Such operations, as well as long term German capital outflows, eased the pressures on the DM in the market for several months and enabled the Treasury and the Federal Reserve to purchase DM. In view of the strength of the dollar in terms of the Belgian franc, the Netherlands guilder, and the Italian lira, the Treasury acquired these currencies, in the market as well as directly from the Central Banks, for use in restoring the U.S. gold tranche position in the International Monetary Fund.

During the first months of 1969 the French and British gradually reduced their outstanding drawings on the United States and other monetary authorities. In part, French repayments were financed by further gold sales. The Treasury and the Federal Reserve, meanwhile, continued to purchase both German marks and Italian lira in the market; DM were used to repay Federal Reserve indebtedness and to redeem a DM-denominated Treasury security held by the Bundesbank. The Federal Reserve swap indebtedness to the Swiss National Bank was liquidated by the use of Swiss francs obtained by the Treasury from the issuance of special franc-denominated securities to the Swiss National Bank and to the Bank for International Settlements and by the sale of gold to Switzerland.

There had been some uncertainty, evident in the private gold markets, concerning the policy of the new U.S. administration regarding the price of gold. These uncertainties were relieved, however, when Secretary Kennedy, with the approval of the President, declared that the United States saw no need or reason to change the monetary price of gold and would not seek an answer to its problems by such an action.

As reflected in London, prices in the gold markets—which have been free of official intervention since the so-called two-tier system was established in March 1968—varied between roughly \$38 and \$44 per ounce. Prices were quite steady around \$39 until the foreign exchange crisis of November 1968, rose gradually to over \$43 by the time of the May crisis, and receded to \$41 per ounce by the end of June. There were few periods of abrupt change, trading volumes at no time approached those often experienced prior to March 1968, and the gold market was little influenced by exchange market developments.

In April, pressure again developed on the French franc. President de Gaulle announced that he would resign if the French electorate rejected constitutional changes submitted to referendum on April 27.

The referendum was defeated, President de Gaulle resigned, and the franc weakened further. Shortly thereafter, official statements in Germany, suggesting that consideration would be given to DM revaluation in connection with currency changes by other countries, led to a massive speculative flow of funds to Germany felt by countries throughout the world. The scramble for DM added further to the pressure on the Euro-dollar market, because of the demand for dollars with which to purchase DM.

A decision, announced by the German Government on May 9, 1969, that the DM would not be revalued once again halted the speculative flow and encouraged some reflows, aided, as earlier, by Bundesbank swap operations with the German banks. The exchange markets nevertheless remained nervous and uncertain.

During the May crisis the United Kingdom, Belgium, Denmark, Austria, and France all drew on their credit lines with the United States and other authorities, and France sold additional amounts of gold. Also, the Bundesbank recycled some of the speculative flows under arrangements with other Central Banks. The Treasury sold DM in the market and again used some of its DM balances to redeem an outstanding Treasury security held by the Bundesbank. The French franc remained unsteady until late in June, when it firmed in response to the announcement of the formation of the new Cabinet by President Pompidou, and the French market was generally calm during the succeeding weeks leading up to the announcement of the French devaluation on August 8.

During the fiscal year, outstanding nonmarketable U.S. Treasury medium term securities issued to foreign monetary authorities increased by $763 million to $3.4 billion.[1] Largest issues were to the Bundesbank which, under arrangements to neutralize the balance-of-payments effects of U.S. military expenditures in Germany, invested the equivalent of $125 million in each quarter in 4½-year, DM-denominated Treasury notes. Under the reserve agreement with the Bank of Canada, a net $170 million of dollar-denominated Treasury notes was issued to the Canadian authorities.

The U.S. gold stock increased during the fiscal year by $472 million to $11,153 million, primarily as a result of purchases from France and the cessation of sales in the private market following establishment of the two-tier system in March 1968. The general shortage of dollars felt by foreign monetary authorities during this period was also instrumental in curbing official demands for gold. Total U.S. reserve assets rose to $16,057 million, because of increases also of $876 million equivalent in convertible foreign currencies and $646 million in the U.S. reserve position in the International Monetary Fund.

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[1] Including $125 million equivalent of DM-denominated notes issued to a group of German commercial banks in June 1968.

The International Monetary Fund[1]

Fiscal year 1969 was relatively quiet for the Fund compared to the previous year when currency sales (drawings) reached a record level, there were 17 changes in member's par values, and the proposed amendment to the Fund's Articles of Agreement was negotiated and written. In fiscal 1969 the Fund continued its study on the stabilization of prices of primary products, in response to resolutions adopted at the 1967 annual meeting in Rio de Janeiro. In June 1969 the Executive Directors adopted a decision establishing a facility for assistance in connection with the financing of international buffer stocks, and transmitted a report to the Governors dealing with the scope for action by the Fund. The new facility provides that members may make drawings from the Fund up to the equivalent of 50 percent of their quota for the purpose of buffer stock financing. Other features are similar to, though not identical with, the compensatory financing facility.

During fiscal 1969, the Fund's currency sales (drawings) totaled the equivalent of $1.1 billion. A drawing by the United Kingdom under its standby arrangement accounted for $500 million of this. The next largest drawing was by South Africa which requested its gold tranche and super-gold tranche, amounting to $128 million. The chief currencies drawn were U.S. dollars ($386 million), Deutsche marks ($127 million), and Canadian dollars ($136 million). Repurchases during the year totaled $1,668 million, all in currencies other than the U.S. dollar. From the beginning of operations to June 30, 1969, cumulative drawings were the equivalent of $18.1 billion, of which $6.2 billion was in U.S. dollars. Repurchases to June 30, 1969, aggregated $9.6 billion, of which $3.6 billion was in U.S. dollars.

The U.S. indebtedness to the Fund was wiped out in November and December 1968, during which time voluntary repurchases by the U.S. Treasury in the currencies of Belgium and Netherlands restored our full gold tranche position of $1,290 million. Since then, further drawings in U.S. dollars have resulted in the United States becoming a Fund creditor. As of June 30, 1969, the U.S. reserve position in the Fund amounted to $1,549 million. This included the U.S. gold tranche of $1,290 million and a super-gold tranche of $259 million.

Once again there was little gain during the year in liberalization of exchange restrictions. The Fund continued to expand its technical assistance programs, particularly to meet the needs of its more recent members, many of which have just gained independent status. Consultations were held with both Article XIV (inconvertible currency) and Article VIII (convertible currency) countries on economic and financial matters of mutual interest and concern.

[1] Fuller discussions of the activities of the International Monetary Fund and the other interested financial organizations are included in the National Advisory Council's annual report for the fiscal year 1969.

The international bank group

The International Bank for Reconstruction and Development and its affiliates, the International Development Association (IDA), and the International Finance Corporation (IFC), committed a total of about $1.9 billion during the fiscal year—almost 90 percent greater than in fiscal year 1968—for financing economic development projects in the member countries. The World Bank made new loans of $1,399 million ($552 million more than in the previous fiscal year), mainly to less-developed countries for electric power, roads, railways, education, agriculture, and industry. IDA credits also showed a sharp increase to $385 million during the year compared with $106.6 million in 1968 when arrangements for the second replenishment were at an earlier stage. IFC investments, which are not guaranteed by governments, were made in private companies on a loan and equity basis to support increased production of cement, steel, and fertilizer plants. In addition, commitments were made in development banking and a range of other areas including tourism, petrochemicals, textiles, and animal feed additives. The total, including underwriting commitments, was $92.9 million.

The loan operations of the World Bank are financed by capital subscriptions, borrowing on financial markets, sales of participations, repayments and earnings on loans and investments. During the year the Bank's outstanding funded debt increased by $791.6 million to the equivalent of $4,081 million. The debt includes 84 separate issues, denominated chiefly in U.S. dollars ($2,770.5 million), Deutsche mark ($895.3 million equivalent), and Swiss francs ($187 million equivalent). There was one public issue in the United States during fiscal 1969 for $250 million (of which $70.9 million was sold under delayed delivery arrangements). Public issues abroad were denominated in Deutsche mark ($162.5 million equivalent), Swiss francs ($18.6 million equivalent), and Kuwait dinar ($42 million equivalent). The Bank also placed privately abroad bonds and notes totaling the equivalent of $750.7 million (of which $398.5 million was denominated in deutsche mark). During the year outstanding debt was reduced through retirement of dollar bonds and notes totaling $330 million. In addition, securities denominated in other currencies were retired as follows: Deutsche mark ($81 million equivalent), Belgian francs ($10 million equivalent), Canadian dollars ($15.4 million), and Swiss francs ($35.1 million). There were also purchase and sinking fund transactions amounting to $54.3 million.

As the World Bank sought funds in the New York market only through its public offering of $250 million it was evident that the Bank's efforts to raise capital in other financial markets met with increased success. Proceeds of issues on the U.S. market continued

to be invested in longer term Treasury obligations until needed for lending to Bank borrowers. The aggregate effect of IBRD operations on the U.S. balance of payments during the year were heavily favorable.

IDA credits are funded by member subscriptions and contributions, grants from the net earnings of the World Bank, repayment of credits, and earnings. IDA's usable resources, cumulative to June 30, 1969, amounted to $2,176 million of which Part I (developed) countries contributed $1,817 million; IBRD grants $285 million; and earnings and contributions of Part II countries, the balance. At the end of the fiscal year only $5 million was uncommitted.

In March 1968 agreement was reached in principle among Part I members to provide additional resources to IDA in three annual installments of $400 million each to finance operations during the fiscal years 1969–71. The U.S. share will be 40 percent or $160 million annually for 3 years. Public Law 91–14 authorizing U.S. participation in this replenishment was enacted by the Congress and approved by the President on May 23, 1969. In accordance with the agreed conditions, the IDA announced that the second replenishment would become effective on July 23, 1969, following the receipt by IDA of formal notification of U.S. agreement to participate. The arrangements for the replenishment included balance-of-payments safeguards which assure that there will be no adverse effects on the U.S. balance of payments resulting from the U.S. participation until at least the beginning of fiscal 1972 unless the United States voluntarily choose to relinquish those safeguards at an earlier date.

Inter-American Development Bank

The 10th annual meeting of the Board of Governors of the IDB was held in Guatemala City, April 21–25, 1969.[1] (See exhibit 42.) The Board discussed a broad range of policy issues, including the Bank's operating policies, the state of the Alliance for Progress, economic integration, and international trade and financial cooperation. Among the resolutions adopted were ones recommending that members make annual voluntary contributions to the IDB's Preinvestment Fund for Latin American Integration and instructing the Executive Board to carry out a study on "Financial Principles and Provisions Concerning Development in Effect in the Inter-American System."

In fiscal 1969, the Bank borrowed $230 million net in the United States, Europe, Latin America, and Japan. This compared with $64 million in the preceding fiscal year. The Bank's largest source of new

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[1] The U.S. delegation was headed by David M. Kennedy, Secretary of the Treasury and U.S. Governor of the Bank. Charles A. Meyer, Assistant Secretary of State for Inter-American Affairs and U.S. Coordinator, Alliance for Progress and Ralph Hirschtritt, Deputy to the Assistant Secretary for International Financial and Economic Affairs, U.S. Treasury Department, served as Alternate U.S. Governors.

borrowed funds in fiscal 1969 was Germany—with three offerings totaling $75 million. The U.S. borrowing consisted of a public offering in November 1968 of $70 million of 6⅝ percent, 25-year bonds. Other sources included: An $8.3 million bond sale in the Netherlands; a $13.7 million sale in Switzerland; a $24 million sale in Italy; a $5.8 million sale in Austria; a new $10 million loan from Japan; $11.1 million in promissory notes from Finland; United Kingdom and Swedish bank loans amounting to $5 million and $6.2 million respectively; and $32.4 million of short term bonds sold in Latin America. As a result of the above transactions, the Bank's funded debt on June 30 amounted to the equivalent of $714.1 million (after sinking fund purchases), and consisted of $395 million borrowed in the United States and the balance in other markets.

The subscribed resources of the Bank's Fund for Special Operations totaled $2,321.9 million equivalent as of June 30, 1969. The increase during the year reflected payments to the Bank by member countries under a $1.2 billion increase in the resources of the Fund for Special Operations which became effective in December 1967. U.S. participation in this increase was authorized by the Congress under Public Law 90–88, approved September 22, 1967. The second payment by the United States under this authorization, amounting to $300 million, was made to the Bank in October 1968.

As of June 30, 1969, the Bank had approved net loans totaling approximately $3 billion from its own resources and those of the Social Progress Trust Fund (SPTF). Argentina, Brazil, and Mexico accounted for approximately $1.35 billion of the total. The estimated cost of projects financed has greatly exceeded the amount of funds committed. Loan disbursements of $1.5 billion were approximately 50 percent of new commitments through the end of fiscal 1969.

In terms of the distribution of loans by purpose and source of funds, approximately $1.3 billion, or 43 percent of total loan commitments through June 1969 (including loans from other resources made available to the Bank) were channeled into two important productive sectors—industry and mining, and agriculture. Among other purposes, $741 million was approved for power and transportation projects, $430 million for water supply and sewerage, and $323 million for the expansion of housing facilities.

The Asian Development Bank[1]

During the fiscal year 1969 the Asian Development Bank approved 11 loans amounting to $71.4 million equivalent from its Ordinary Capital resources. This brought the Bank loans from Ordinary Cap-

[1] For background on the establishment and early operations of the Asian Development Bank, see 1966, 1967, and 1968 annual reports, pp. 64–65, pp. 49–50, and pp. 51–52, respectively.

ital resources as of June 30, 1969, to a total of 13 amounting to the equivalent of $76.4 million, against which disbursements of $4.37 million were made. In addition, the Bank approved its first loan from Special Funds resources in June 1969—a loan of $990,000 equivalent to Indonesia for an irrigation project in Central Java. As of June 30, 1969, the Bank had approved 15 technical assistance projects in eight countries at an estimated cost of $2.1 million.

On March 27, 1969, Hong Kong was accepted as a member of the Bank, subscribing to $8 million of stock. This raised the total subscriptions to $978 million and brought the total membership to 33, of which 20 are countries of the region and 13 are nonregional developed countries.

The third of the five U.S. $20 million installments on its paid-in capital subscription was made during the fiscal year. It consisted of $10 million in cash and $10 million in the form of a noninterest-bearing letter of credit, which may be drawn on in the future when required by the Bank for disbursement. Of the $489 million subscription on paid-in capital, installments totaling $291.5 million had matured as of June 30, 1969.

In September 1968 the Bank's Board of Directors formally established the "Consolidated Special Funds" of the Bank and adopted the "Special Funds Rules and Regulations" which constitute a framework for the administration of such Special Funds. Japan, Canada, Denmark, and the Netherlands offered to contribute a total of $128.1 million to the Bank's Consolidated Special Funds, $33.1 million of which was made available to the Bank as of June 30, 1969. In his message on foreign aid of May 28, 1969, President Nixon expressed his intention to submit to the Congress a new proposal for a U.S. contribution to the Bank's Consolidated Special Funds.

At the Bank's second annual meeting,[1] held in Sydney, Australia, April 10–12, 1969,[2] the Board of Governors set aside for Special Funds operations 10 percent of the convertible currency portion of the Bank's paid-in capital which had been paid by the members as of that date ($14.575 million).

As of June 30, 1969, Canada, Denmark, Japan, and the United States had agreed to contribute a total of $1.98 million to the Bank for technical assistance, against which disbursements totaling $382,149 had been made. In addition, Finland, Germany, and the United Kingdom agreed to contribute unspecified amounts of technical assistance; as

[1] See exhibit 41.
[2] David M. Kennedy, Secretary of the Treasury and U.S. Governor of the Bank headed the U.S. delegation, which included Assistant Secretary of the Treasury for International Affairs John R. Petty and U.S. Director of the Asian Development Bank Bernard Zagorin, acting as Temporary Alternate Governors, and congressional advisors and other ranking officials of the Department of the Treasury, the Department of State, and AID.

of June 30, 1969, the Bank had disbursed $60,264 from these contributions.

Trade policy

With the successful completion of the Kennedy Round tariff negotiation, increased attention has been given to the reduction and elimination of nontariff barriers to trade. The Contracting Parties to the General Agreement on Tariffs and Trade (GATT) have established committees on trade in industrial products and agriculture to examine the barriers to trade and consider possible ways to achieve their elimination. The Industrial Products Committee has developed an inventory of nontariff barriers and engaged in an indepth discussion of the operations and effects of each country's barriers. The Committee at the fiscal yearend was examining possible ways of removing these barriers. Department of the Treasury representatives have actively participated in these discussions as members of the U.S. delegation to the GATT meetings. The Agriculture Committee was engaged in a similar exercise and Treasury also participated in policy formulation for those meetings.

In an effort to remove barriers to U.S. exports, and thus aid in the restoration of balance-of-payments equilibrium, the U.S. Government (including representatives of the Treasury) engaged in discussions with the Government of Japan concerning that country's quantitative restrictions on imports. These discussions will be continued into the fiscal year 1970.

The Treasury Department continued to take an active and leading role in international discussions on the GATT rules dealing with border tax adjustment, i.e., the remission of indirect taxes on exports and the levying of compensatory duties on imports. The special GATT working party, established at the request of the United States, has examined the legislative history of the present rules, the practices of countries making border tax adjustments, and the trade effects of the present rules and practices. As the fiscal year ended, working party consideration of possible ways of eliminating existing inequities in the rules was in progress.

A Treasury representative was also a member of the U.S. delegation to the 25th Session of the Contracting Parties to GATT and various other GATT committees and working parties, as well as OECD meetings relating to government procurement and preferential tariff treatment for less developed countries.

Organization for Economic Cooperation and Development

The eighth Ministerial Council meeting of the Organization for Economic Cooperation and Development (OECD) in Paris February

13–14, 1969, noted with satisfaction the accession of Finland to the OECD Convention. Against the background of strains in the monetary field in 1968, the Ministers called for the Organization to review, and if possible improve, the effectiveness of its consultative procedures with respect to economic policies. They also instructed the Organization to intensify its efforts, in consultation with other bodies, to insure the effective functioning of the adjustment process. Under Secretary of the Treasury for Monetary Affairs Volcker served on the U.S. delegation.

With the change in administration, Under Secretary Volcker succeeded Frederick L. Deming as a member of the U.S. delegation to the Economic Policy Committee (EPC) of the OECD and as chairman of the U.S. delegation to its Working Party on Policies for the Promotion of Better International Payments Equilibrium (Working Party 3). In December 1968 an experts' study was published on "Fiscal Policy for a Balanced Economy," which had been proposed by the EPC. Besides reviewing economic and financial developments in member countries, Working Party 3 examined in depth questions relating to the mutual consistency and appropriateness of balance-of-payments patterns and objectives.

The Treasury Department also continued to participate actively in the work of other bodies of the OECD, including the Development Assistance Committee, Trade Committee, Committee for Invisible Transactions, and Fiscal Committee. In addition, a Treasury official regularly represents the United States as an observer at the meetings of the Managing Board of the European Monetary Agreement.

Treasury foreign exchange reporting system

The "Capital Movements" section of the monthly "Treasury Bulletin" was expanded and reorganized to provide a more complete and useful presentation of the statistics collected by the Treasury on capital movement between the United States and foreign countries.

During the year surveys were conducted of foreign holdings of U.S. Government bonds and notes and of short term direct borrowings by banks from foreigners. Special instructions were issued covering the reporting by securities brokers and dealers of new foreign issues offered only to nonresidents of the United States and the reporting by nonbanking concerns of deferred payment letters of credit. As part of the program of improving reporting on Treasury forms, staff members visited several Federal Reserve banks, which act as agents of the Treasury in collecting the reports.

Law Enforcement Policy

Shortly after the new administration took office, the urgent need to strengthen the law enforcement functions of the Department became evident. It is the second largest enforcement agency of the Federal Government.

The proper enforcement of the Federal laws is absolutely essential if the Department of the Treasury is to carry out the responsibilities assigned to it by the Congress. The role of law enforcement was immediately upgraded by delegating responsibility for it to the Assistant Secretary level, a presidentially appointed officer, in lieu of the previous secretarially appointed special assistant. The General Counsel was directed to take a more active role in the law enforcement efforts, especially with the Department of Justice. The President, in reviewing the budget submitted by the previous administration, determined greater efforts should be expended in the drive against organized crime. So a budget amendment for $9.4 million was prepared providing for 1,200 additional personnel in 1970. The 1970 Appropriation Act also provided for the first time for a consolidated Federal law enforcement training school.

It was intended that the initial steps taken early in this administration, but late in the fiscal year 1969, would provide the ingredients for a more successful law enforcement program in Treasury. To fulfill the responsibilities of the Department of the Treasury, it is hoped that sufficient resources of the Goverment may be allocated to the collection and protection of the revenue and the essential supportive role of law enforcement.

ADMINISTRATIVE REPORTS

Administrative Management

Management improvement program

The Department realized $22.3 million and 2,013 man-years in savings during fiscal 1969 from actions to improve management.

While not the result of management improvements, additional benefits amounting to $141.3 million flowed from legislative or administrative policy changes. The largest portion, $56 million, is a computed interest saving from corporate tax law modifications enacted late in fiscal 1968. These modifications had the effect of making corporations more current in their tax payments by increasing the percentage of estimated taxes to be paid and gradually reducing the amount of the exclusion authorized in the payment of estimated taxes. Benefits of $9.6 million are attributable to reductions in borrowing costs because of requirements for the earlier deposit of withheld taxes which resulted in the earlier availability of these funds. An additional $50.9 million in revenue resulted from the policy change in fiscal year 1968, which authorized the melting of silver coins and the sale of this silver by General Services Administration at the going market price instead of at the former fixed monetary value. Net receipts from the sale of sets of proof coins and uncirculated coins added $6.5 million to the general fund.

Additional revenue of $10 million was received in the fiscal year 1969 from partial implementation of the IRS Individual Master File Delinquency Check Program which enabled the Service to select delinquent cases for concentrated collection effort in accordance with their potential yield of taxes due the Government. Another $5.4 million in additional revenue was realized from use by IRS of a computer program for automatically selecting for examination those individual income tax returns having characteristics indicating the greatest audit potential. As a result of a new cooperative program for the exchange of abstracts of tax audit information with the State of New York, IRS realized $2.5 million in assessed deficiencies from 25,000 returns.

Special studies and projects

The individual bureau reports which appear later contain details of studies and projects carried on by the bureaus to promote economy and efficiency. Among the studies completed at the departmental level were those of the organization and management of the Office of Domestic Gold and Silver Operations and of the Emergency Planning Program to improve Treasury's state of emergency preparedness. A study was also conducted to improve procedures to accelerate processing of cases of alleged dumping of foreign products on the domestic market.

A comprehensive review and evaluation of Treasury participation in the foreign technical cooperation programs of the Agency for International Development was made by a group of prominent consultants. Of particular significance in the final report that was prepared were

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the frequent references to the benefits derived by less-developed countries from the advisory functions covering revenue systems and the training of foreign participants in tax and customs administration offered by Treasury bureaus. The report strongly recommended that these efforts be given higher priority by AID.

Considerable staff effort was devoted to preparation of briefing materials to aid in the transition from the former to the current Administration. In keeping with the high priority established by President Nixon on reorganization of governmental structure, Secretary Kennedy has initiated several special studies having the potential of achieving financial economies and better administration in selected Treasury programs.

Emergency preparedness

Documents were prepared to provide for coordinating the emergency activities of Federal credit agencies, and for assuring the consistency of these activities with resource allocation decisions. Emergency plans were partially tested during a practice alert, in which the Secretary participated.

Planning and program evaluation

Planning and program evaluation contributes to improved allocation and utilization of the Department's budget resources through the identification and analysis of alternative operational objectives and management strategies for attaining them in terms of the relative costs and benefits of alternative courses of action. Staff leadership, coordination, and direction are provided to the program planning and analysis activities of the Department.

During the fiscal year 1969 this staff:

(1) Prepared the special analytical study "Coin Requirements and Capacity in the Seventies," reviewing the long term outlook for coin demand and capacity as a basis for long term planning and management, with special reference to the potential contribution of the San Francisco Assay Office;

(2) Prepared special analyses of Treasury programs for the reduction of crime for Budget Bureau use in the final stages of review of the President's Budget for 1970, and for the Budget Director's preliminary review of 1971 budget requirements;

(3) Advised and consulted on the development of special analytical studies by Secret Service and Internal Revenue Service requested by Bureau of the Budget;

(4) Coordinated and monitored on a Department-wide basis the conduct of special analytical studies requested by the Bureau of the Budget and the preparation by Treasury bureaus of the fourth annual program and financial plan, together with supporting analytical material, as a basis for determinations on fiscal year 1971 program planning levels;

(5) Continued preparation of the periodic coin sample which provides a basis for estimating the rate of disappearance of coins from circulation; and,

(6) Continued participation and monitoring of the study for the determination of an optimum level of examination of mail packages by the Customs Bureau.

Financial management[1]

Budgeting.—Under the requirements of Public Law 90–364, stringent controls were exercised over obligations, outlays, and employment levels. Appropriations initially provided by the Congress for fiscal 1969 were reduced by $23 million by establishment of reserves for budgetary savings. The restriction on the filling of vacant positions—at first limited to 75 percent, later to 70 percent permitted to be filled—meant that during fiscal 1969 Treasury was without a total of 4,800 positions expected to have been available for conduct of Treasury programs. This total consisted of 2,400 jobs that became vacant during the year and the 2,400 new positions authorized by the appropriation act. As a result, revenues were lost, backlogs were increased, quality of service to the public was reduced, and law enforcement efforts weakened. Controls were continued over size of motor vehicle fleets, overseas employment, and overseas travel. A supplemental appropriation request for employees' pay increases, principally under Public Law 90–206, was held to $15 million although they cost $42 million. Savings principally resulting from lower personnel levels were applied to pay costs.

The Johnson administration budget was reviewed, modified, and reduced from $1,092 million to the Nixon administration level of $1,085 million for presentation to the Congress.

Accounting systems.—Administrative accounting systems of the U.S. Secret Service, the Bureau of Customs, and the Internal Revenue Service were submitted for the approval of the General Accounting Office. The statement of Department-wide administrative accounting principles and standards which apply to all Treasury bureaus was approved by GAO. At the close of fiscal 1969 all Treasury administrative accounting systems had either been approved or were under consideration by GAO for approval.

Management of automatic data processing.—The Department used 69 computers and related ADP equipment, 21,500 man-years, and $170 million in its ADP operations during fiscal 1969. These operations, which involved 20 percent of the Department's operating resources, continued to provide significant benefits including net additional revenue of $676.2 million as a result of Internal Revenue's ADP master-file system and annual operating saving of 460 man-years and $3.4 million. Accomplishments in the management of ADP included the initiation of several new studies on new or expanded use of ADP in five bureaus, further improvements in acquisition of both new and excess equipment, increases in the interchange of data between Federal agencies and State governments, and several steps taken in incorporating Federal and other standards into ADP hardware and software, some of which are expected to result in several million dollars in savings over the next 5 years.

Internal auditing.—The first appraisal of the Bureau of the Public Debt under a policy of covering only specific phases of the internal auditing function in each bureau and office was made during the year. Of particular significance was internal audit's role in advising on the installation of the Office of the Secretary's cost information system

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[1] See detailed statement in the "Annual Report of the Secretary of the Treasury on Improvements in Financial Management."

and monitoring its operation. Toward the close of the year, the staff developed a plan for improving the Department's internal auditing generally. The plan, which drew largely on the experience of previous reviews of bureau and office internal auditing activities, is expected to be fully implemented in fiscal 1970.

Personnel management

Personnel activity during the year in the national headquarters offices was dominated by the necessity to assure an orderly transfer of administrative operations to Secretary Kennedy. Materials to brief new officials on the Civil Service system and the personnel system within Treasury, plus expeditious handling of preappointment requirements for new officials, contributed greatly to a smooth transition and continuity of Treasury operations.

New Civil Service Commission promotion regulations were implemented, to be effective early in fiscal 1970. Treasury Merit Promotion Guidelines were issued for the guidance of bureaus in writing their specific plans, and all bureau plans were reviewed for compliance with Commission and departmental requirements.

Equal Employment Opportunity continued to receive special attention. Significant numbers of minority employees have been employed in, or promoted to, middle-grade positions in a continuing effort to eliminate a concentration of racial minorities in the lower grades.

The Department continued to participate in the development of the Coordinated Federal Wage Board system, approved application of a number of wage schedules in different parts of the country, and issued necessary regulations and conversion instructions. Most Treasury trades and labor employees have been brought under the system; the rest will be converted on an area-by-area basis as new full-scale wage surveys are completed.

Estimated first-year benefits from employee suggestions totaled $1.5 million and similar benefits recognized by performance awards brought the total to $2.3 million. This was an increase of 39.5 percent over fiscal 1968.

Advances were made in providing needed professional and technical training deferred as a result of last year's severe budgetary restrictions. Gains were also made in overcoming some of the backlog of supervisory and management development training. A Treasury training facility was opened at Hofstra University incorporating the most modern educational features to accommodate both the Internal Revenue North Atlantic Training Center and the Bureau of Customs National Training Center in a building designed for the Department's needs.

Tangible progress toward greater maturity and stability in the employee management cooperation program was achieved. Midyear statistics showed the number of negotiated agreements nearly double that of the preceding year, and 65 percent of the work force was in units under exclusive recognition (up from 47 percent).

Administrative services

Exhibit hall.—Planning was continuing at the fiscal yearend toward a more effective Treasury exhibit presentation. Working with the Smithsonian Institution and other professional organizations, Treas-

ury has been preparing a fully reorganized "Exhibit Hall" to inform the public of the origin and growth of each Treasury activity and to relate Treasury's history to the Nation's growth.

Personal property.—From the end of the first quarter 1968 to the end of the first quarter 1969, over one-half a million dollars worth of personal property had been reassigned within the Department for continued utilization. Treasury also obtained personal property valued at over three-quarters of a million dollars from other Federal agencies without reimbursement, and about $44,000 was deposited into the Treasury as miscellaneous receipts, representing proceeds from the sale of surplus personal property. Treasury transferred nearly $1¾ million worth of personal property to other Federal agencies for their use. To assist certain organizations outside the Federal community, such as State bodies and nonprofit groups, Treasury donated over $1¼ million worth of personal property no longer needed by the Federal Government.

Space.—In the Metropolitan Washington Area, Treasury reduced its space needs by nearly 21,000 sq. ft. during fiscal 1969. The consolidated statistics for all Treasury space in the United States showed a total reduction of nearly 74,000 sq. ft.

Security activities

During fiscal year 1969 physical security inspections were conducted within the Office of the Secretary, bureau headquarters offices, and 37 bureau field offices.

In the personnel security program, 790 sensitive cases, 155 nonsensitive cases, and 171 reinvestigation cases were processed.

Law Enforcement

Department operations

The Department of the Treasury is the Federal Government's second largest law enforcement agency. The Department's operations in this area are basically carried out by the Internal Revenue Service, the Bureau of Customs, and the U.S. Secret Service. The fiscal 1969 activities of these three components are included in the following detailed administrative reports of the respective services.

Since January 1969, this administration has provided more active departmental leadership in the law enforcement field. The Office of the Secretary has devoted more manpower and resources to the departmental function and developed several new approaches to Treasury's law enforcement role. The supervisory role for law enforcement was elevated from a special assistant to the Secretary to the Assistant Secretary for Enforcement and Operations. More staff was added to the office of this Assistant Secretary for day-to-day liaison with Treasury law enforcement staffs and with the Department of Justice. The participation of the Department in the President's stepped-up war on organized crime was also increased. The regular Appropriation Act for 1970 provides added resources for all of the law enforcement bureaus in Treasury.

As the fiscal year 1969 closed, plans were being developed for a greatly increased antismuggling campaign to keep narcotics, marihuana, and other dangerous drugs from coming into the United States.

These plans consist of a two-part effort: (a) Within the existing manpower resources of the Customs Bureau to conduct a total inspection of all persons and cargo crossing the Mexican–United States border; and (b) to request Congress to provide for substantial increases in manpower and facilities to improve the quality of enforcement of Customs' laws throughout the nation.

Consolidated law enforcement training center

In the fiscal year 1969, plans were finalized and congressional authorization secured for the development of a consolidated Federal law enforcement training facility. This center, to be located at Beltsville, Maryland, will, when completed, provide the facilities to train all of the Treasury law enforcement personnel, as well as personnel engaged in law enforcement of the other Federal civilian agencies (except the Federal Bureau of Investigation which has its own facilities). This center will be operated by Treasury. As the consolidated center progresses, the Basic Law Enforcement School of the Treasury Department, which has been in existence for many years, will be merged into the new training unit. The consolidated center concept is the result of a study of an interdepartmental task force under the leadership of the Bureau of the Budget, which began in fiscal 1967, based on the needs of the Secret Service. The present situation in the United States of law enforcement generally demands that greater efforts be made to train more adequately the cadre of Federal law enforcement personnel.

Office of the Comptroller of the Currency

The Comptroller of the Currency, as the Administrator of the National Banking System, is charged with the responsibility of maintaining the public's confidence in the System by sustaining the banks' solvency and liquidity. An equally important public objective is to fashion the controls over banking so that banks may have the discretionary power to adapt their operations sensitively and efficiently to the needs of a growing economy.

Office operations

During fiscal 1969, the Office of the Comptroller of the Currency experienced many administrative improvements in its continuing efforts to streamline Office operations to meet the challenge and requirements of the growing National Banking System. In Washington, the staffing of professionals in certain administrative positions has created a more responsive organization; and refinement in the examining function has enabled the Office to maintain high quality performance with a minimum manpower increase in accomplishing its mission. Procedures and policy are under continual review to make the examination process more significant and efficient.

Personnel

Personnel administration continued to play a vital part in the Office's progress in fiscal year 1969 by broadening its activities to provide a well-rounded personnel management program. Studies were initiated during fiscal 1969 for purposes of developing written evaluation standards and appropriate distinctions in pay levels. A related

project was designed to provide a staffing pattern and equitable grade structure for each region based on an analysis of workload. This will result in greater manpower utilization by determining the responsibility and complexity of the examination assignment and matching these against the skills levels of national bank examiners.

The Comptroller's Office has been confronted with an ever increasing need for quality manpower due to the rapid growth and increasing complexity of the banking industry. To meet this demand for professionals, the Office established ambitious recruiting goals and new recruiting techniques. The results of this effort were most gratifying and successful.

All phases of the Office training program received new attention. Special schools were established and new training techniques inaugurated. An educational needs survey was conducted and through this method the Employee Development Office was able to structure a meaningful training program for the Office.

Fiscal management

The mission to improve the Comptroller's financial management system continued through fiscal 1969. Notable achievements included the conversion of accounting records from a manual to a machine operation, the improved management of the Office's cash position to maximize investment income, and the issuance of new and comprehensive travel regulations.

During this period, the Internal Audit Division was reorganized into a more effective aid to management. A fresh evaluation resulted in the establishment of internal audit objectives, the development of more effective internal audit practices and reporting procedures, and the issuance of a new Internal Audit Manual which outlined prescribed standards of performance for the Audit Staff.

Information services program

The purpose of this continuing program is to make the policies and procedures of the Office of the Comptroller of the Currency better known and to facilitate communications among the Office, the banking industry, and the general public.

Four basic manuals are available to employees, banks, and other interested parties: "Comptroller's Manual for National Banks," "Comptroller's Manual for Representatives in Trusts," "Comptroller's Policy Guidelines for National Bank Directors," and "Instructions, Procedures, Forms for National Bank Examiners." The "Directory" has been updated and contains the address and telephone number of every decisionmaking official in the Office together with his picture and a biographical sketch. The "Annual Report of the Comptroller of the Currency" is available to interested parties and contains a general statement of policy, descriptions of the state of the National Banking System, of Office operations, and reprints of selected Office documents relating to crucial public issues in banking.

Status of national banks

At the end of fiscal year 1969, there were 4,701 national banks in operation, a decline from the 4,743 of a year before. Mergers accounted for virtually all of this decline. At the same time, the number of branches of national banks spurted upward from 10,240 to 11,177, an

increase of 9.2 percent. As a result, the total number of national banking offices reached 15,878 on June 30, 1969.

Total assets of the 4,701 national banks spurted 15.3 percent during fiscal 1969, to reach $305.9 billion on June 30, 1969. The rate of increase in total loans was even greater, the 16.2 percent growth leading to a figure of $166.8 billion at the fiscal yearend. The total deposits of national banks stood at $251.6 billion, made up of $131.0 billion in demand deposits and $120.6 billion in time and savings deposits. On the income side, net income, aftertaxes, of national banks during calendar 1968 was $1.93 billion, compared to $1.76 billion in 1967.

Number of national banks and banking offices, by States, June 30, 1969

	National banks			Number of branches	Number of offices
	Total	Unit	With branches		
United States	4,701	3,135	1,566	11,177	15,878
Alabama	89	49	40	169	258
Alaska	5	0	5	44	49
Arizona	4	2	2	192	196
Arkansas	68	35	33	75	143
California	69	14	55	2,254	2,323
Colorado	119	119	0	0	119
Connecticut	29	8	21	196	225
Delaware	5	3	2	4	9
District of Columbia	11	1	10	64	75
Florida	205	205	0	0	205
Georgia	61	32	29	151	212
Hawaii	1	0	1	6	7
Idaho	9	3	6	104	113
Illinois	418	385	33	33	451
Indiana	123	52	71	313	436
Iowa	101	62	39	52	153
Kansas	171	143	28	28	199
Kentucky	80	37	43	130	210
Louisiana	49	15	34	160	209
Maine	21	5	16	88	109
Maryland	47	14	33	230	277
Massachusetts	86	21	65	395	481
Michigan	98	29	69	518	616
Minnesota	198	196	2	6	204
Mississippi	39	7	32	122	161
Missouri	98	78	20	20	118
Montana	48	47	1	1	49
Nebraska	126	104	22	22	148
Nevada	4	1	3	55	59
New Hampshire	52	29	23	36	88
New Jersey	145	34	111	555	700
New Mexico	33	9	24	65	98
New York	173	73	100	1,127	1,300
North Carolina	23	6	17	466	489
North Dakota	42	33	9	9	51
Ohio	217	79	138	660	877
Oklahoma	219	183	36	36	255
Oregon	11	4	7	237	248
Pennsylvania	322	167	155	965	1,287
Rhode Island	5	0	5	88	93
South Carolina	20	4	16	219	239
South Dakota	34	24	10	53	87
Tennessee	77	20	57	253	330
Texas	534	534	0	0	534
Utah	12	8	4	59	71
Vermont	27	13	14	43	70
Virginia	105	27	78	419	524
Washington	27	11	16	397	424
West Virginia	80	80	0	0	80
Wisconsin	120	90	30	52	172
Wyoming	40	40	0	0	40
Virgin Islands	1	0	1	6	7
District of Columbia (all)[1]	14	1	13	97	111

[1] Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

Assets, liabilities, and capital of national banks, selected dates
[In millions of dollars]

	June 29, 1968 (4,742 banks)	Dec. 31, 1968 (4,716 banks)	June 30, 1969 (4,701 banks)
ASSETS			
Cash, balances with other banks, and cash items in process of collection	$44,787	$50,953	$52,283
U.S. Government securities	[1] 31,627	[1] 35,300	[2] 34,355
Obligations of States and political subdivisions	[1] 30,630	[1] 34,704	[2] 35,640
Other securities	[1] 6,285	[1] 6,867	[2] 1,435
Total securities	[1] 68,542	[1] 76,871	[2] 71,430
Federal funds sold and securities purchased under agreements to resell	3,113	4,397	4,070
Direct lease financing	460	542	647
Loans and discounts	[1] 140,690	[1] 154,862	[2] 166,832
Fixed assets	3,893	4,166	4,746
Customers' liability on acceptances outstanding	1,250	1,275	1,687
Other assets	2,762	3,528	4,211
Total assets	265,497	296,594	305,906
LIABILITIES			
Demaud deposits of individuals, partnerships, and corporations	87,595	101,765	97,217
Time and savings deposits of individuals, partnerships, and corporations	98,695	107,716	107,150
Deposits of U.S. Government	3,010	3,288	3,722
Deposits of States and political subdivisions	19,377	22,082	20,237
Deposits of foreign governments and official institutions, central banks, and international institutions	2,994	3,196	2,935
Deposits of commercial banks	12,441	15,303	14,337
Certified and officers' checks, etc	4,916	4,534	5,987
Total deposits	229,028	257,884	251,585
Demand deposits	117,296	134,629	131,015
Time and savings deposits	111,732	123,255	120,570
Federal funds purchased and securities sold under agreements to repurchase	4,371	5,234	7,763
Liabilities for borrowed money	726	689	2,132
Acceptances executed by or for account of reporting banks and outstanding	1,275	1,290	1,708
Other liabilities	9,594	9,973	16,701
Total liabilities	244,994	275,070	279,889
RESERVES ON LOANS AND SECURITIES			
Reserves on loans			3,269
Reserves on securities			113
Total reserves on loans and securities			3,382
CAPITAL ACCOUNTS			
Capital notes and debentures	1,390	1,256	1,142
Preferred stock	59	58	59
Common stock	5,505	5,694	6,090
Surplus	9,000	9,747	10,287
Undivided profits	3,840	4,051	4,368
Reserves	709	718	689
Total capital accounts	20,503	21,524	22,635
Total liabilities and capital accounts	265,497	296,594	305,906

[1] Net of reserves.
[2] Gross, reserves not deducted.

Résumé

The Office of the Comptroller of the Currency continues to change and grow with the national economy and the banking industry. Internal operations and administration are undergoing constant refinement and improvement in order to better serve the public whose demands must be met.

Bureau of Customs

The Bureau of Customs has the two-fold task of collecting revenue on imports, and of enforcing the laws regarding both exports and imports. It is responsible for the assessment and collection of import duties and taxes and the control of carriers, persons, and merchandise entering or departing the United States; for administering the tariff and related laws affecting international trade and traffic; for detecting and preventing smuggling and frauds on the revenue; and for regulating vessels in the coastwise and fishing trades. The Customs Service conducts a continuing program of informing the public and encouraging voluntary compliance by the international trading community with the laws, regulations, and controls established by Customs and numerous other Federal agencies.

One of the most significant Customs enforcement activities is the prevention of the illicit introduction into the United States of narcotics, marihuana, and dangerous drugs. This activity was intensified toward the close of the fiscal year 1969 through reassignment of employees and similar measures.

Bureau operations

Collections.—Revenue collected by Customs during fiscal 1969 reached the alltime high of $3.257 billion, a 12 percent increase over 1968. This included customs duty collections, excise taxes on imported merchandise collected for the Internal Revenue Service, and certain miscellaneous collections. Collections and payments by customs regions and districts are contained in the Statistical Appendix. The major classes of all collections made by the Customs Bureau are also shown in that volume. The cost of collecting each $100 was $3.08 compared with $3.09 in fiscal 1968.

Carriers and persons entering.—Over 227 million persons, arriving either as pedestrians or on the over 67 million carriers entering, were subject to customs inspection during fiscal 1969. This represented a 6.4 percent increase in persons arriving and a 5.0 percent increase in carriers over fiscal 1968. (See Statistical Appendix.)

Entries of merchandise.—Both the volume and value of imports continued to climb with the value of imports reaching $34.1 billion in fiscal 1969 compared with $29.5 billion last year—an increase of 15.6 percent. The volume and type of entries handled during the last 2 fiscal years are shown in the Statistical Appendix.

A total of 20.8 percent of all entries during the year were duty free. The remaining 79.2 percent were subject to duty.

Automatic data processing.—During fiscal year 1969 the nationwide installation of the ADP system for customs revenue, appropriation, and overtime payroll accounting was accomplished. Property accounting was converted to computer processing; a centralized inbond transit system that pinpoints delinquent shipments was established; budget and personnel reports were converted to computer processing; and programs for the production of a legal index were successfully tested.

Audits.—During the year 319 offices were examined and 63 internal audit reports were made. A total of 286 commercial audits of brokers and 28 cost system audits (wool) were made; 55,749 liquidations were verified taking 1,412 corrective actions.

Security.—During fiscal 1969, 1,971 personnel investigations and 586 full field investigations were closed. There were 51 conduct investigations opened and 39 closed during the year. Thirty-eight investigations exonerated customs employees. Prompt and intensive investigations of allegations of employees' misconduct is essential and mandatory to a meaningful personnel security program.

A total of 1,531 critical and noncritical sensitive clearances were done, and 65 offices were inspected.

New security procedures provided for a series of collateral investigations conducted by several agents reporting independently instead of the former practice of one agent conducting and coordinating the entire scope of the investigation.

Equal employment opportunity.—Program activity in the area of Equal Employment Opportunity in fiscal 1969 centered around development and implementation.

A half dozen formal complaints of discrimination and a greater number of informal complaints were handled during the year, indicating employee confidence in the complaint system.

The program of conducting EEO seminars for supervisors, which was begun 2 years ago, was concluded. Almost every supervisor or manager in customs has had at least one 2-day session of training.

Foreign customs assistance.—The largest concentration abroad continued to be in Vietnam, where during 1969 there were 11 full-tour teams. The mission financed by AID is two-fold, in that customs is responsible for the improvement of the Vietnamese Customs Service, as well as for the monitoring of the commercial import program. Subactivities of customs representatives include responsibility in investigating areas relating to the commercial import program as well as responsibility concerning the customs boat fleet.

During the year squads were formed which specialized in combatting black market and illegal currency activities, fraudulent invoicing, and narcotic activities. The number of seizures tripled in 1969 as compared with 1968.

Approximately 600 Vietnamese customs officers were trained in organization and leadership techniques. Classes in conversational English were also established for these officers.

Five teams were working in Latin America during the year. A four-man team was in Argentina; two full-term advisors in Colombia; one man in Costa Rica; one man in Panama; and a team at the Regional Office for Central America and Panama.

Two customs advisors are in Ethiopia, and one is in Afghanistan. One man was in Liberia until September 30, 1968, when he was transferred to Afghanistan.

During fiscal 1969, 86 foreign participants from 28 countries came to the United States for training in Customs operations. They were trained in various fields, including organization and management, inspection of baggage and cargo, airport, seaport and border port procedures, merchandise control, investigative techniques, and other aspects of Customs operations.

In March 1969, the chief chemist at New Orleans furnished technical advice for the installation of a customs laboratory at Aqaba, Jordan. This was made possible by the use of certain equipment acquired

through GSA, by the New Orleans Laboratory, at the request and cooperation of the Customs Bureau, the Department of State, and the Jordanian Ministry of Finance.

Priority correspondence.—There is a unit in the Office of the Commissioner which is responsible for the expediting of responsive and appropriate replies to inquiries from Members of Congress, Governors of States, heads of other Federal departments and agencies, and other high officials, as well as inquiries referred from other parts of the Treasury Department. Replies to complaints and commendations are also handled.

During 1969 a total of 2,600 replies were sent out; 521 acknowledgements and referrals were handled; and replies were sent to 156 complainants and 44 commendations.

Planning and research.—During fiscal 1969, a customs committee developed the work statement and evaluated proposals for studying the feasibility of automating large segments of customs merchandise processing system, a special project under the PPB system.

An automated quota system was developed. All quota transactions are now "on the line" with the new IBM 1130 data processing unit. Studies for automating drawback and bonding procedures were being explored in cooperation with other customs offices at the fiscal yearend.

The random time sampling system became operational in all nine customs regions in February 1969. Data was gathered to determine the optimal examination rate for maximizing both revenue and the detection of violations in mail packages. A short and simple procedure for accurately determining the number of foreign incoming mail packages was designed.

Facilities management.—In order to simplify and modernize property accountability, the records were transferred to the computer. Complete inventory runs were produced twice during the year. Both a numerical listing by property number and an alphabetical listing of property items were prepared. This "cross reference" inventory proved to be a timesaver.

All editorial work involving decisions of the U.S. Customs Court to be printed in the weekly "Customs Bulletin" was transferred from the court to the Bureau.

In cooperation with GSA and other inspection agencies, a pilot installation of ventilating equipment was made at the San Ysidro, Calif., inspection station for the control of air pollutants. Similar systems were being developed for other stations with the same problem, and by the fiscal yearend GSA had been authorized to install them at Calexico, Calif., and at Laredo, Tex.

Five new border residences were completed and accepted by the Bureau during the fiscal year at Coburn Gore, Maine, and Raymond, Mont. A contract was awarded for a truck weighing station at Boston, Mass. Standards and specifications were developed for a pilot model of a mirror service for inspecting the underside of motor vehicles at border stations.

During fiscal 1969 Customs moved to new offices and occupied new examination facilities at Elmendorf AF Base, Anchorage, Alaska. Construction was completed on a new customs office and examination area at Anchorage International Airport, provided by the State of

Alaska. The customs office at the San Francisco International Airport was moved to new, more modern quarters.

Personnel.—Lack of personnel continued to be a source of trouble to all arms of the Customs Service. There were not sufficient employees to handle the preclearance facilities at Toronto and Montreal, Canada, or at Logan International Airport, Boston, Mass. Major personnel shortages also restricted several operations in New York.

Incentive awards.—A total of 1,778 suggestions were received in 1969, of which 527 were adopted. The tangible savings totaled $252,-679, for which $6,995 was paid in awards.

There were 285 Superior Work Performance Awards and 291 Special Act or Service Awards made during the year.

Training.—The major accomplishment of the year was the establishment of the National Training Center at Hofstra University, Hempstead, N.Y. Although the Center didn't officially open until June 17, 1969, courses were given beginning in January 1969. The Center was developed jointly with the Internal Revenue Service.

A computer systems analyst training program was established during fiscal 1969. This program which will begin in fiscal 1970 will be presented in three phases and will consist of 6 months training.

Training in the accelerated inspection system was given to 152 primary inspectors from Customs, Immigration and Naturalization Service, U.S. Public Health Service, and U.S. Department of Agriculture at Logan Airport, Boston, Mass. Inspectors at San Francisco, Calif., and Portland, Oreg., attended a 4-hour training session in narcotics and dangerous drugs, places of concealment, search and seizure, and customs laws relating to enforcement. Seizure workshops were conducted in the Baltimore, Md., and Philadelphia, Pa., districts. St. Albans, Vt., presented a course in narcotics identification that was so successful that requests were received from the Immigration and Naturalization Service Border Patrol and the Vermont State Police to include their personnel. Canadian Customs also sent inspectors to the course.

Airline personnel at Washington, D.C., and Wilmington, Del., were trained in customs procedures in order to expedite clearance of passengers and aircraft.

The Boston, Mass., region implemented a series of 3-day seminars for supervisors, during which they were brought into the regional office and given a complete orientation.

Antidumping and countervailing duties.—A total of 21 dumping cases were recorded in fiscal 1969 and six cases were closed. One case was referred to the Tariff Commission. Five findings of dumping were issued during the year. At the fiscal yearend, 29 cases remained on hand.

Fourteen countervailing cases were received, three cases were closed, and 18 remained on hand at the end of fiscal 1969. Three countervailing duty orders were issued.

Tariff classification.—Over 7,258 written replies to letters of inquiry were made. Of these, 130 were of sufficient importance to be published in summary form in the weekly "Customs Bulletin."

A total of 706 applications for free entry of scientific instruments and apparatus were processed during fiscal 1969.

Samples which require analysis before a ruling can be issued may now be sent to customs laboratories other than the one in New York. A more rapid handling of the samples and a more prompt ruling on the proper classification of the merchandise has resulted.

Regulations.—The revision of Part 30 (Foreign Trade Zones) of the Customs Regulations was completed and became effective April 7, 1969. Part 31 (Customhouse Brokers) was also completed and became effective December 15, 1968.

Under Public Law 90–474 approved August 11, 1968, and upon receipt through diplomatic channels of assurance from certain foreign countries that they granted reciprocal privileges to vessels of the United States, Part 4 of the Customs Regulations was amended to provide that vessels of Belgium, Denmark, Finland, Ireland, Netherlands, Norway, South Africa, Sweden, and the United Kingdom were extended reciprocal privileges in this country.

Pursuant to Public Law 89–219 (46 U.S.C. 83–83k) Treasury Decision 68–216 was published permitting vessels with a tonnage mark and dual tonnages the benefit of the lower tonnage in accordance with the "Recommendations on the Treatment of Shelter-Deck and other 'Open' Spaces" of the Intergovernmental Maritime Consultative Organization.

Treasury Decision 68–217 required that estimated duties be deposited or a bond given to cover duties on foreign repairs and equipment of a vessel of the United States before clearance is given.

The Somali Republic was added to the list of nations which are exempt from the payment of special tonnage tax and light money.

Instructions were issued to update the list of countries which are parties to the International Convention on Load Lines, 1930, and the International Convention on Load Lines, 1966; and to advise that Australia, Belgium, Pakistan, Republic of China, Spain, Turkey, Vietnam, and the United Arab Republic are now parties to the International Convention of Load Lines, 1966.

Instructions were issued on the entry procedures of snowmobiles which cross the international boundary over frozen lakes and rivers.

The United States on December 3, 1968, deposited instruments of accession to the following Conventions: Customs Convention on the Temporary Importation of Professional Equipment; Customs Convention on the A.T.A. Carnet for the Temporary Admission of Goods; Custom Convention on the E.C.S. Carnets for Commercial Samples; Customs Convention on Containers.

Two of the Conventions provide for the importation of goods under cover of an international document known as a "carnet." The carnet serves simultaneously as a customs entry document and as a customs bond. The payment of customs obligations incurred with respect to merchandise covered by a carnet is guaranteed under the carnet system by a domestic guaranteeing association. The United States Council of the International Chamber of Commerce has been approved as such an association in the United States.

Drawback.—The total drawback allowance paid during fiscal 1969 amounted to $40,224,499 as reflected in the Statistical Appendix. Drawback allowance on the exportation of merchandise manufactured from imported materials amounts to 99 percent of the customs duties paid at the time the goods are entered.

Protests.—Protests filed by importers against the rate and amount of duty assessed and appeals for reappraisement filed by importers who did not agree with the customs officers on the value of merchandise are shown in the following table.

Protests and appeals	1968	1969	Percentage decrease (−)
Protests:			
Filed with district directors by importers (formal)	86,419	66,500	−23.1
Filed with district directors by importers (informal)	110,913	94,041	−15.2
Appeals for reappraisement filed with district directors	21,010	13,582	−35.4

Penalties.—Decisions were made on 678 penalty cases in 1969. A total of $109,069 was paid to 31 informers.

Penalty cases, fiscal year 1969

Type of case	Number	Full statutory liability of violators
Penalty and forfeiture	543	$125,192,972
Liquidated damages	135	4,216,181
Total	678	[1] 129,409,153

[1] Subject to some mitigation in appropriate cases by the Bureau or by the courts.

Net liability imposed by penalty decisions, 1968 and 1969

Type of case	1968	1969
Penalty and forfeiture cases	$3,110,828	$63,976,548
Liquidated damages	149,249	223,996
Total	3,260,077	64,200,544

Cost reduction/management improvement program

During fiscal year 1969 this program resulted in savings of $2,791,000. Of this amount, $617,000 was cost reduction, and $2,174,000 was cost avoidance. The savings were used in the Customs Service to handle the workload without adding to staff or to expenditures.

Restricted merchandise.—Approximately 1,850 cases pertaining to various import restrictions, prohibitions, or controls under statutes and regulations were received and handled during fiscal 1969. These included country of origin marking and various labeling requirements; use of foreign convict labor; trademarks, copyrights, and patents; obscenity matters, contraceptive devices, lottery or seditious materials; birds and plumage or eggs, and wild animals; switchblade knives, Federal and State liquor laws; and technical matters arising under the International Coffee Agreement.

A total of 162 trademarks, trade names, renewals, assignments and name changes were recorded. Seventy-two copyrights were recorded and 13 patent surveys or renewals were approved. A total of $48,000 of recordation and related fees were collected for these services.

During fiscal 1969 a procedure was approved for the release of noncommercial as well as commercial shipments not exceeding $250 in value, of articles subject to trademark restrictions, whereunder such trademarked articles in the mails were released to the addressee upon his filing a statement that the offending trademarks would be removed upon delivery of the parcel.

Entrance and clearance of vessels.—The following table compares entrances and clearances of vessels for fiscal years 1968 and 1969.

Vessel movements	1968	1969	Percentage decrease (−)
Entrances:			
Direct from foreign ports	50, 412	49, 500	−1. 8
Via other domestic ports	41, 121	36, 462	−11. 3
Total	91, 533	85, 962	−6. 1
Clearances:			
Direct to foreign ports	49, 199	48, 650	−1. 1
Via other domestic ports	40, 402	36, 396	−9. 9
Total	89, 601	85, 046	−5. 9

Containerization.—The increasing use of containerization continued to create problems for customs, especially due to the lack of sufficient personnel to handle the shipments. Baltimore, Md., reported that the increased use of containers had created a problem in designating merchandise for this very involved examination.

The Norfolk, Va., district recorded that containerization increased from 1,730 containers in fiscal 1968 to 4,116 in 1969.

In Los Angeles, Calif., by the end of fiscal 1969 an average of 1,800 containers were being discharged each week at local piers. The Los Angeles Harbor Commission and the Long Beach Harbor Commission forecast that a total of one quarter million containers would be discharged at local piers within a year. Such rapid development of containerization might change the entire concept of shipping by sea.

Mail operations.—Efficiency in mail operations continued to improve through consolidation of smaller mail divisions into larger units and the processing of all mail at the port of first arrival.

In New York greater stress on enforcement led to the detention of 6,718 parcels for various violations of Customs and other Federal laws. In registered mails 416 parcels were held. In ordinary mails 1,782 parcels were held under Foreign Assets Control Regulations, 1,709 for trademark violations, 987 for lack of legal markings, 1,040 for violations of various gun control acts, and 490 for diplomatic releases. Violations relating to the gift exemptions or to gross undervaluations accounted for 255 seizures.

In Chicago a six-line automatic powered belt system became fully operational during fiscal 1969. Several blitz operations were conducted in the mail division which resulted in some small marihuana seizures, but most violations were of undervaluation or false declarations.

At San Francisco there were over 250 marihuana or narcotic detentions; 230 illegal weapons and parts detained; 120 parcels with explosives or ammunition turned over to the military; over 4,500 parcels of stolen Government property recovered; 250 switchblade knives seized;

and over 165,000 cases of undervaluation, false invoicing, or false declarations detected. In addition, approximately 65,000 parcels were detained for other agencies requirements, such as Foreign Assets Control, Food and Drug, or the Department of Agriculture. The most notable trend in 1969 was the increase in the number of parcels found to contain narcotics.

Quotas.—In order to cope with the ever increasing volume of importations subject to quota, a computer was acquired early in fiscal 1969. By the end of fiscal 1969 the processing of quotas had been completely automated.

During the fiscal year 154 absolute and tariff-rate quotas were administered under specific Presidential proclamations and legislation. Two quotas were imposed under the International Coffee Agreement of 1965; five quotas were imposed under the Philippine Trade Agreement Act of 1955; and, 188 quotas involving 19 foreign countries, were imposed under the Long Term Cotton Textile Arrangement by directives of the President's Cabinet Textile Advisory Committee, which made a total of 349 quotas.

Presidential Proclamation 3870, dated September 24, 1968, resulted in the establishment of 33 quotas on cheeses administered on a country basis. Presidential Proclamation 3884 of January 6, 1969, resulted in the establishment of eight quotas, also administered on a country basis. These quotas reverted to the Department of Agriculture for administering on a licensing basis at the close of business on December 31, 1968, and June 30, 1969, respectively.

Fibers administration.—The supervision of wool imports was continued in order to determine uniformity in identification, grades, and condition. In this connection 9,966 reports were reviewed. There were 1,199 samples of questionable wools submitted for opinion as to identity, condition, grade, and yield. In addition 119 samples of wool wastes, 309 samples of man-made fibers and wastes, and 178 samples of cotton and animal hair were submitted for opinions on identity, classification, and quota status.

A total of 242 samples of raw cashmere and raw camel hair were received from official government agencies in the United Kingdom, Belgium, Switzerland, and Czechoslovakia. These samples were submitted for the purpose of identification of the origin of the fibers for the Office of Foreign Assets Control.

Backlogs of entries and invoices.—Total invoices received during fiscal year 1969 increased 19.4 percent from 4,201,102 to 5,016,797. During this period the backlog of invoices on hand increased 30 percent from 389,495 [r] to 506,508.

The backlog of unliquidated entries rose from 904,987 in 1968 to 1,144,145 in 1969, an increase of 26.4 percent. A total of 2,774,821 entries were received this year, 15.7 percent more than 1968. Increases in backlogs were due in part to the increased workload and in part to personnel shortages resulting from yearlong budgetary restrictions.

Customs Information Exchange.—In 1969, 386 requests for rates of exchange for unlisted countries were furnished by C.I.E. to customs officers upon request.

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[r] Revised.

363-222—70——7

During the year 1,873 catalogs, price lists, and other value data from foreign manufacturers and shippers were received, reproduced and disseminated to customs officers at ports known to have received importations of such or similar merchandise.

The greatest volume of reports received is the "Report of Classification and Value;" during the year these averaged over 78,000. A total of 117 foreign and local inquiry reports were processed, including Canadian Query reports. During the year 247 advance reports were received from various import specialists. The C.I.E. acted as middleman in order to reconcile differences.

There were 610 reports of significant value changes sent to each District Director, where shipments had been entered from the same manufacturer or seller.

Export control.—Export control activity increased, particularly in the field of merchandise exported under license, as more material is moved by direct air shipment abroad. The single export declaration to cover all automotive parts exportations made in a calendar month by some of the auto manufacturers is a tremendous aid in cutting down paperwork, and its use is gradually being expanded to include additional manufacturers.

Laboratories.—In fiscal 1969 a total of 167,834 samples were tested, as compared to 160,315 in 1968. Consultations, methods development, court visits, training, and other nonsample activities consumed some 31,422 man-hours in 1969. At the fiscal yearend there were 149 on the laboratory staffs, compared to 157 in 1968.

The Philadelphia laboratory was closed and its operations consolidated with those of the Baltimore laboratory, as the result of the recommendation of a Treasury study group.

The volume of narcotic smuggling along the southern border has been increasing at an accelerated rate in recent years. This has posed a problem not only for enforcement agents in the area, but also for the chemists in the New Orleans laboratory who analyze the seizures. The long distances involved, and the noncentral location of the laboratory, resulted in much time lost by chemists called as expert witnesses. In fiscal 1969 chemists from New Orleans spent 1,698 man-hours in these activities. Personnel of the laboratory analyzed 11,179 narcotics seizures during 1969 as compared to 9,301 for 1968.

After an on-the-spot study, it was recommended that a narcotics testing laboratory be established in the San Antonio, Tex., area. The recommendation was approved by the Commissioner of Customs on May 22, 1969. The new laboratory will have a staff of five, and is expected to be operational during the first quarter of fiscal 1970.

During fiscal 1969, the following large instruments were purchased: For the Baltimore laboratory a mass spectrometer for $65,000 and an infrared spectrometer for $22,500; and for the use of the New Orleans laboratory an X-ray diffraction/fluorescence spectrometer at a cost of $41,900.

International conferences.—Customs participated in the 10th Inter-American Travel Congress at Quito, Ecuador, on December 14, 1968. This meeting was a specialized conference of the OAS to promote tourism in various countries.

Customs participated in the Third Port and Harbor Conference at Vina del Mar, Chile, November 1, 1968.

During fiscal year 1969 customs officials represented the United States as official delegates or observers at a number of international meetings and conferences, including: The Permanent Technical Committee of the Customs Cooperation Council at Brussels, Belgium; the Inland Transport Committee and its subsidiary organs of the Economic Commission for Europe in Geneva, Switzerland; and the Working Group on Facilitation of the Intergovernmental Maritime Consultative Organization.

Improved services to the public.—The booklet "Customs Guide to Private Flyers," which outlines the principal requirements and procedures which private flyers must follow in making entrances and clearances, was revised and updated.

The Accelerated Inspection Service (AIS), installed at the John F. Kennedy International Airport at New York and at San Antonio, Tex., in fiscal 1968, was initiated at Boston, Mass., Dulles (Washington, D.C.), Seattle, Wash., and Houston, Tex., airports this fiscal year.

The limits of the ports of entry of Bridgeport, New Haven, Hartford, and New London, Conn., were extended, bringing 80 percent of the bonded carrier facilities within the limits of a port of entry.

On August 15, 1968, the ports of Richmond and Petersburg, Va., were consolidated for greater economy and efficiency with no reduction in services to the public.

A new port at Tulsa, Okla., was opened in May 1969, and in June the new Houston Intercontinental Airport commenced operations.

Salt Lake City, Utah, was officially opened as a customs port of entry in April 1969. Its first sizable seizure was 29 pounds of hashish in an electric organ. Whitelash, Mont., was also established as a full-time customs port of entry in April 1969.

Public information.—The information program was expanded during the year to aid customs in coping with the greatly increased number of travelers. A special series of releases were issued carrying information for Americans traveling abroad and for foreigners visiting the United States.

In cooperation with the U.S. Travel Service, releases for visitors were distributed overseas, translated into other languages so that necessary information was available in advance of trips to this country. "Customs Hints for Nonresidents" is available abroad in English, French, German, Italian, Spanish, and Chinese editions.

Speakers were provided for radio and television appearances, for clubs and other organizations. A seminar on textiles was arranged for graduate students attending the University of Maryland, with three customs technicians explaining the various requirements of the customs regulations regarding textiles and apparel.

A series of short question and answer columns under the title of "Ask the Customs Man," were developed especially for tourists and were sent to the field for distribution.

A customs booth, sponsored jointly by the Buffalo, N.Y., district office and the Customs Agency Service, was part of an exhibit offered

by 20 Government agencies in Buffalo and Niagara Falls, N.Y. It was visited by over one million people.

Investigative activities

The Customs Agency Service is the primary investigative and enforcement arm of the Bureau. The form of organization was slightly modified during the year by the addition of three field offices and the closing of one. The new Agency offices were opened in Lukeville, Ariz.; Blaine, Wash.; and Pittsburgh, Pa.; each serving as suboffices under the customs agents in charge at Nogales, Seattle, and Philadelphia, respectively. Portland, Maine, was changed to a resident suboffice and placed under the direction of the customs agent in charge at Houlton, Maine. The Key West, Fla., office was closed.

During the year 30 customs agents and 92 customs port investigators attended the Treasury Law Enforcement School in Washington, D.C. The Customs Agent Training School at Hofstra University was attended by 94 customs agents, and another 12 agents completed the course given by the Import Specialist School also at Hofstra.

Improvements and modernization continued to be made in the radio communications system. A new system was designed for the New York office, assuring complete coverage throughout the area. Radio equipment and a base station were furnished to St. Thomas, V.I., which now provides instant communications with the customs agent in charge at San Juan, P.R. A system of printed fugitive cards with photographs was inaugurated, and the Agency has become a subscriber to the National Crime Information Center (NCIC) computer network through Secret Service facilities. An airplane was acquired for investigative use. In its first year of operation its value was firmly established. The aircraft was used in 28 separate smuggling cases, 14 of which were still in progress at the fiscal yearend. The 14 successfully concluded cases resulted in 25 arrests, the seizures of 4,260 pounds of marihuana, 12 pounds of heroin, 2 pounds of cocaine, 11 vehicles, and three aircraft.

The most significant heroin case of the year was the so-called fish or paella case, where heroin was concealed in cans of food. That resulted in the seizure of 115 pounds of heroin, the arrest of nine persons in the United States and Europe, and the breaking up of an extremely important international heroin smuggling organization.

Arrests.—The following table shows the number of arrests and dispositions during the last 2 fiscal years.

Activity	Fiscal years 1968	Fiscal years 1969	Percentage increase, or decrease (−)
Persons under or awaiting indictment at beginning of year	1,887	2,639	39.9
Arrests	4,343	6,200	42.8
Turned over to other agencies	1,164	2,117	81.9
Prosecutions declined	596	621	4.2
Not indicted	11	13	18.2
Convictions	1,316	1,795	36.4
Dismissals and acquittals	346	328	−5.2
Nolle prossed	157	38	−75.8
Persons under or awaiting indictment at end of year	2,640	3,927	48.8

Cases investigated.—The number of cases investigated under customs, navigation, and related laws enforced by Customs increased

slightly in fiscal 1969 to 28,175 from 27,989 the year before, as shown in the Statistical Appendix.

Seizures, general.—There were 28,175 seizures made during the year, excluding narcotics and marihuana.

Seizures, narcotics, marihuana, and dangerous drugs.—In fiscal 1969 seizures of heroin totaled 141,269 grams (311.43 pounds), an increase of 26.4 percent over 1968. Other narcotics, mostly cocaine, increased to 90,213 grams (198.87 pounds) in 1969 from 44,325 grams (98 pounds) in 1968.

An even more dramatic increase in hashish seizures occurred: from 86,638 grams (191 pounds) to the alltime total of 282,771 grams (623.39 pounds), an increase of 325 percent.

Dangerous drugs increased to 4,763,361 five-grain units in 1969 from 3,936,800 five-grain units the year before.

Marihuana continued to occupy the attention of customs agents and inspectors, although the number of seizures was below the alltime high of 1968. In 1969, there were 2,673 seizures of marihuana for a total of 57,164 pounds, as compared to 2,450 seizures of 70,034 pounds in 1968.

In achieving these results customs agents conducted 10,562 narcotic investigations, as compared to 9,226 in 1968. The number of arrests increased from 4,343 to 6,200 in the same period. There were 479 more convictions in 1969, up from 1,316 to 1,795. Most of the marihuana and dangerous drug seizures were along the Mexican border, while New York and Miami led in the narcotic seizures.

The following table gives the details of narcotic and marihuana seizures.

Seizures	Fiscal years 1968	Fiscal years 1969	Percentage increase, or decrease (−) in amount seized
Narcotic Drugs:			
Heroin:			
Grams	111,741	141,269	
Pounds	246	311.43	26.4
Number of seizures	265	240	
Opium:			
Grams	6,539	15,347	
Pounds	14.2	33.88	134.7
Number of seizures	21	42	
Other (mostly cocaine):			
Grams	44,325	90,213	
Pounds	98	198.87	102.93
Number of seizures	259	253	
Hashish:			
Grams	86,638	282,771	
Pounds	191	623.39	325
Number of seizures	n.a.	186	
Marihuana:			
Grams	31,767,457	25,929,683	
Pounds	70,034	57,164	−18.4
Number of seizures	2,450	2,673	
Dangerous Drugs [1] (5-grain units)	3,936,800	4,631,925	17.66
Number of seizures	525	603	

n.a. Not available.

[1] Consisting principally of amphetamines, and depressants, the barbiturates, tranquilizers, etc.

Seizures, merchandise.—Customs seizures for various violations of customs laws by number and value are shown in the Statistical Appendix.

Foreign trade zones

Customs duties and internal revenue taxes collected during fiscal 1969 in the 10 zones in operation amounted to $11,410,154.

During the past year Foreign Trade Zone No. 2 in New Orleans, La., was granted a subzone. This subzone occupies an area of 150,937 square feet and began operation in May 1969.

The following table summarizes foreign trade zone operations during fiscal 1969.

Trade zone	Number of entries	Received in zone		Delivered from zone		Duties and internal revenue taxes collected
		Long tons	Value	Long tons	Value	
New York	3,865	26,729	$41,280,862	31,400	$38,206,255	$3,171,354
New Orleans	4,832	37,166	33,320,058	26,467	21,402,242	3,103,815
New Orleans (subzone)[1]		11,460	1,657,328	2,346	332,410	
San Francisco	1,183	5,417	7,730,161	4,750	6,805,673	507,349
San Francisco (subzone)	219	74	254,169	25	144,410	52,638
Seattle	510	1,413	1,616,846	1,415	1,781,695	175,892
Mayaguez	369	723	893,895	653	1,440,497	106,910
Penuelas (subzone)	11	360,648	6,974,988	228,132	11,210,568	19,639
Toledo	224	28,394	11,140,297	29,070	11,562,931	3,672,391
Honolulu	4,002	2,825	5,167,304	2,231	4,125,145	600,166

[1] Due to the nature of the transactions in this subzone, entries are not required and duties and internal revenue taxes are not collected.

Cost of administration

Customs operating expenses amounted to $100,185,166, including export control expenses and the cost of additional inspection reimbursed by the Department of Agriculture.

The following table shows man-years employment data in fiscal years 1968 and 1969.

Operations	Man-years 1968	Man-years 1969	Percentage increase, or decrease (−)
Regular customs operations:			
Nonreimbursable	8,103	8,222	1.5
Reimbursable [1]	432	435	.7
Total regular customs employment	8,535	8,657	1.4
Export control	220	208	−5.5
Additional inspection for Department of Agriculture	271	278	2.6
Total employment	9,026	9,143	1.3

[1] Salaries reimbursed to the Government by the private firms who received the exclusive services of these employees.

Office of Director of Practice

The Office of Director of Practice is a part of the Office of the Secretary of the Treasury and is under the immediate supervision of the General Counsel. Pursuant to the provisions in Treasury Department Circular No. 230 (31 CFR, Pt. 10), the Director of Practice institutes and provides for the conduct of disciplinary proceedings against attorneys, certified public accountants, and enrolled agents who are alleged to have engaged in disreputable conduct or who are alleged to have violated the rules and regulations regarding practice before the Internal Revenue Service. The Director of Practice also exercises jurisdiction, as the first level of administrative appeal, in those cases where the Commissioner of Internal Revenue denies an

application for enrollment to practice before the Internal Revenue Service made by persons seeking enrollment pursuant to Section 10.4 of Circular 230.

On July 1, 1968, there were 50 derogatory information cases pending in the Office under active review and evaluation, three of which were awaiting presentation or decision before a hearing examiner. During the fiscal year, 130 cases were added to the caseload of the Office. Disciplinary action was taken in 46 cases, either by the Office or by order of a hearing examiner. These 46 actions consisted of one order of disbarment, 15 suspensions, 29 reprimands, and one instance where an enrolled agent was permitted to terminate by resignation his enrollment to practice before the Internal Revenue Service. The 46 actions affected nine attorneys, 12 certified public accountants, and 25 enrolled agents.

Five proceedings for disbarment or suspension were initiated before a hearing examiner during fiscal 1969. Therefore, including the three cases remaining on the examiner's docket on July 1, 1968, there were eight cases before the examiner during fiscal 1969. Decisions were rendered in six of these cases. In one case involving an attorney, the examiner's initial order that the attorney be disbarred from further practice before the Service was affirmed on appeal to the Secretary. In the remaining cases, the examiner issued initial orders for suspension from practice before the Internal Revenue Service, one of which, involving a certified public accountant, was affirmed on appeal to the Secretary. As of June 30, 1969, one case was pending on the examiner's docket awaiting decision and one case was awaiting presentation.

Sixty-nine cases were removed from the Office caseload during the fiscal year 1969 after review and evaluation showed that the allegations of misconduct did not state sufficient grounds to maintain a disciplinary proceeding under the regulations of Circular No. 230. Including the two cases pending on the examiner's docket, there were 62 derogatory information cases under consideration in the Office as of June 30, 1969.

During the fiscal year, two applicant appeal decisions were rendered by the Director of Practice pursuant to Section 10.5(d)(1) of Circular No. 230. In both instances the denials of applications for enrollment by the Commission of Internal Revenue were sustained. Three practitioners petitioned the Director of Practice, pursuant to Section 10.75 of Circular No. 230, for reinstatement to practice before the Internal Revenue Service. Favorable consideration was given to each of these petitions and reinstatement accordingly was granted.

Office of Domestic Gold and Silver Operations

The Office of Domestic Gold and Silver Operations, in the Office of the Under Secretary for Monetary Affairs, assists the Under Secretary and the Assistant Secretary (Economic Policy) in the formulation, execution, and coordination of policies and programs relating to gold and silver in both their monetary and commercial aspects. The Office administers the Treasury Department Gold Regulations relating to the purchase, sale, and control of industrial gold and gold coin; issues licenses and other authorizations for the use, import and export of gold, and for the importation and exportation of gold coin;

receives and examines reports of operations; and investigates and supervises the activities of users of gold. Also, it administered the Silver Coin Regulations relating to the melting, treating, and export of silver coins of the United States until May 12, 1969, when such regulations were revoked. Investigations into possible violations of the Gold Regulations and the Silver Coin Regulations are coordinated with the U.S. Secret Service, the Bureau of Customs, and other enforcement agencies.

Gold

Use of gold for industrial purposes.—Sales of gold by the Treasury for industrial use and purchases from the private market were terminated on March 18, 1968. Since that date, gold used in industry, the professions, and art in the United States has come from new domestic production and from imports. During the calendar year 1968, 3,555,000 fine troy ounces of gold were imported for commercial use. Another 1,360,000 ounces from U.S. mine production were used in domestic industry. From January 1 until sales were terminated on March 18, 1968, the Mint supplied 1,689,000 ounces of gold to industry. The estimated use of gold and its allocation by types is shown in the following table.

Estimated net industrial use of gold for calendar year 1968

	Fine ounces	Percent
Jewelry and arts	3,908,000	59
Dental	771,000	12
Industrial, including space and defense	1,925,000	29
Total	6,604,000	100

Gold coins and gold medals.—The regulations governing imports of gold coins and gold medals were liberalized during fiscal 1969. On April 25, 1969, new regulations were issued permitting imports of gold coins minted before 1934 without the necessity of obtaining a license.[1] A license is still required to import gold coins minted during or after 1934. Licenses are issued only for coins of recognized special value to collectors of rare and unusual coin. Under the amendments, gold coins minted after January 1, 1960, may not be imported unless the particular coin had been licensed for importation prior to April 30, 1969.[2] The number of gold coins licensed by the Treasury increased in the calendar year 1968 to 20,399, as compared with 4,313 gold coins licensed in calendar year 1967. During the first half of 1969, 3,680 gold coins were licensed. This decrease reflects in part the elimination of the requirement that licenses be obtained for pre-1934 coins.

On June 10, 1969, amendments were issued which permit the importation of antique gold medals (over 100 years old) and commemorative medals for regular public display by a museum or other institution serving the public.[3]

Licensing of gold dealers.—The Office continued licensing banks and commodity firms to acquire and import gold for sale to domestic industrial users. Fifteen such licenses were outstanding at the end of the fiscal year.

[1] See exhibit 59.
[2] See exhibit 60.
[3] See exhibit 63.

Silver.—Sales of Treasury silver for domestic industrial use at going market rates on a competitive sealed bid basis continued during fiscal year 1969. The sales are conducted by GSA, as agent for the Treasury. On May 12, 1969, following a meeting of the Joint Commission on the Coinage, the Treasury announced two changes in the program.[1] One reduced the amount of the weekly offering from 2 million ounces to 1½ million ounces. Under the other change, the silver sales were opened to all competitive bidders without restriction on the use of the silver purchased. During the fiscal year 1969, 99,314,409 million ounces of silver were contracted for sale under this program at a profit to the Government of $46,733,623.

The administrative ban on the melting and export of U.S. silver coins was revoked following the May 12 meeting of the Coinage Commission.[2]

Bureau of Engraving and Printing

The Bureau of Engraving and Printing is responsible for manufacturing U.S. paper currency, various public debt instruments, and most other evidences of a financial character issued by the Government, such as postage and internal revenue stamps, food coupons, and military payment certificates. In addition, the Bureau prints commissions, certificates of awards, permits, and a wide variety of other miscellaneous items. The Bureau also executes certain printings for various territories administered by the United States.

Management attainments

Awards program.—On April 1, 1969, the Bureau held its first awards ceremony to honor recipients of 237 superior work performance awards, 25 high quality pay increases, and 2 special service awards. Immediate supervisors presented the awards and the Director was present to extend his personal congratulations to the awardees. Nonrecurring savings of $93,596, or 15½ man-years, were realized in fiscal 1969 from the superior work performance phase of the incentive awards program. Under the employee suggestion program, of 374 suggestions received, 140 were adopted. It is estimated that the Bureau will realize annual recurring savings of $54,148 and nonrecurring savings of $823 from suggestions adopted in fiscal 1969.

Improved service to the public.—The Bureau continued to improve communications with and services to the public. In fiscal 1969, the Bureau participated in 31 public shows. Participation in these numismatic and philatelic exhibits and conventions serves a dual purpose, in that, in addition to providing a public service function, it contributes to counterfeit deterrence, by acquainting the public with the unique characteristics of U.S. currency and other securities.

During the year, 608,323 visitors took the self-guided tour through the Bureau. Other tours were arranged on an individual basis for special visitors, such as representatives of the Federal Reserve System, representatives of foreign firms in the printing industry, representatives of foreign governments sponsored by the Agency for International Development, and writers and staff members of numismatic and philatelic publications.

Internal audit.—In the interest of maintaining efficient and economic operations, the Bureau has carried on an intensive and continu-

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[1] See exhibit 61.
[2] See exhibit 62.

ing internal audit program. During fiscal 1969, 46 reports of audit, containing 62 recommendations for improvements, were released for consideration by management.

Savings.—Estimated savings totaling approximately $287,000 on a recurring annual basis and $161,000 on a one-time basis were reported for fiscal 1969 as a result of the Bureau's overall cost reduction and management improvement efforts. All savings realized are applied against the cost of products produced and are reflected in downward adjustments in product costs and passed on to customer agencies.

Currency program

Deliveries of currency notes increased from 2.1 billion pieces in fiscal 1968 to 2.4 billion pieces in fiscal 1969. Despite increased costs in materials and labor, the unit cost rate of currency production in 1969 was reduced to a noteworthy low of $7.95 per thousand notes. It is estimated that currency requirements will continue to increase substantially over the next few years. To insure adequate production capacity to meet the increased demands, the Bureau, on December 23, 1968, contracted for two new sheet-fed rotary presses, in the amount of $868,100, for delivery in July and August 1970. Long-range plans call for the acquisition of additional high-speed intaglio presses, not only to insure sufficient production capacity for future currency requirements, but also to provide for the orderly replacement of the Bureau's existing equipment, as it wears out, with the most modern presses available and to continue the program of conversion of other Bureau products from the wet to the dry method of printing.

This year, the Bureau changed its techniques for applying the signatures of the Secretary of the Treasury and of the Treasurer of the United States on currency notes. Under the wet-print process formerly used, it was more economical to overprint the signatures and series typographically, after the face design was intaglio printed. Upon complete conversion to the dry-print method on its high-speed sheet-fed rotary presses, the Bureau found it a more efficient and economical operation to apply the signatures and series designation as integral parts of the face intaglio design on the engraved plates. This engraved-signature technique was used in the printing of the $100 U.S. note, Series 1966, first delivered on October 14, 1968. It was also used in the production of $1 Federal Reserve notes, Series 1963B, bearing Secretary Barr's signature, thus making it possible to continue the historical practice of having each Secretary's signature appear on a currency issue. By the close of the fiscal year, the Bureau had used the new method in printing all denominations of Federal Reserve notes from $1 through $100, Series 1969, bearing the signatures of David M. Kennedy, Secretary of the Treasury, and Dorothy Andrews Elston, Treasurer of the United States. Conversion to the 1969 Series under the engraved-signature method was accomplished with a minimum of difficulty, in substantially less time than would have been required under the former method, and at lower costs. Savings in fiscal 1969 from this change were estimated at 2 man-years or $48,000.

Confident that the greatest economies in currency manufacture can be achieved through mechanization of associated manual processing operations, the Bureau has placed a contract for a prototype currency overprinting and processing machine for delivery in fiscal 1970. It has been estimated that, upon successful performance of this prototype equipment and the acquisition and use of production models,

annual recurring savings of $2 million should result in currency processing operations.

Postage stamp program

The Bureau also concentrated on improvements in its second major work program, the production of postage stamps. A great deal of work has gone into the overall development of the nine-color prototype web-fed intaglio press, which was installed late in fiscal 1966 for the printing of multicolor postage stamps. Major trouble items relating to press performances were identified and corrected. Satisfied with the progress of the press, the Bureau made final settlement of the contract on April 17, 1969. The press was used for printing the 1968 issue of the Christmas stamp, as well as stocks of the 6-cent flag stamps issued in coil form. At the fiscal yearend the press was being used for the printing of the 1969 Christmas stamp. Use of this press has reduced overtime considerably.

The Post Office Department has evidenced a continuing interest in the printing of multicolor postage stamps by the gravure process. Two commemorative postage stamps, the 5-cent Eakins "American Painting" issue of 1967 and the 6-cent Walt Disney issue of 1968, were printed by this method. In each instance, not having a gravure printing press, the Bureau served as contracting agent for the printing of the stamps by private firms. In order to obtain a flexibility capable of meeting the requirements of the Post Office Department for gravure printed work, the Bureau has made plans to purchase two gravure presses.

The first of these will be used primarily in the production of aerograms, a product transferred this year from the Government Printing Office to the Bureau of Engraving and Printing. On August 30, 1968, the Bureau received its first order from the Post Office Department to produce 20 million 13¢ Human Rights aerograms, with a first day sale date of December 3, 1968. Because of the time limitation and the fact that the Bureau did not have the special equipment required for this production, the order was subcontracted to private industry. Immediately, the search began for the best available presses and equipment for producing future aerogram requirements. On May 19, 1969, the Bureau ordered a rotogravure press, at a cost of $524,742, for delivery by February 1970. This will be a web-fed press, capable of printing by the gravure method in as many as seven colors and of tagging, gumming, accumulating, and delivering 100-sheet units of aerograms at a web speed of 300 feet a minute. The press will be capable of roll-to-roll printing at a web speed of 800 feet a minute.

Specifications for the second press were being finalized at the fiscal yearend for procurement of a web-fed intaglio-gravure press, having four rotogravure units, a three-color intaglio unit, an imprinting unit, a perforating unit, and provisions for sheeting and winding. This press will be used primarily for the production of postage stamps.

Deliveries of U.S. postage stamps decreased to about 27.4 billion pieces in fiscal 1969, as compared to 34.7 billion pieces the previous year, when the January 1968 postal rate increase became effective. New issues of postage stamps delivered in fiscal 1969 are shown in the Statistical Appendix.

Food coupon program

Food coupon deliveries increased from 397 million pieces in fiscal year 1968 to 502 million pieces in 1969. With the substantial growth

that has taken place in the production of food coupons in book form, the Bureau has directed special attention to methods of mechanizing manual operations associated with the manufacture of this product. As an alternate consideration for a dual-purpose, roll-fed, bookmaking machine that would require several years in developing, the Bureau purchased and installed a less complex, 12-station, sheet-fed, collating machine for use in the production of food coupons. The machine was in production at the fiscal yearend, but mechanical problems have been encountered which prevented it from operating at its rated speed.

Employee-oriented activities

In addition to a continuing interest in technological improvements, management evidenced special interest in the Bureau's employee oriented programs during the fiscal year.

Labor-management relations in the Bureau are excellent, with the various union groups contributing significantly to successful program operations. On December 17, 1968, negotiation was concluded of a basic agreement with Columbia Lodge No. 174, International Association of Machinists and Aerospace Workers, AFL–CIO. The agreement covers a unit of approximately 1,850 noncraft, nonsupervisory, wage system employees. This was the seventh formal labor-management contract negotiated by the Bureau with employee unions. In all, exclusive recognition has been granted to 15 unions, representing 25 craft units, one noncraft unit, and one GS guard unit, in addition to formal recognition granted to one other union.

Throughout the year, positive steps were taken to improve the exchange of information within the Bureau. Periodic issues of the "Employees' Newsletter," initiated in 1967, were continued. Regular supervisory staff meetings were initiated in fiscal 1969 in all organizational components, as a means of keeping supervisors informed, so that they, in turn, may pass the information on to line employees.

Action was initiated to implement early in fiscal 1970 a Supervisory Intern Program, designed to create increased promotion opportunities for Bureau employees interested in attaining supervisory status and to improve the quality of the Bureau's supervisory structure. It is expected that this program will receive increased emphasis, with a view to employing a multiple approach to the measurement of successful supervisory qualities.

The Director instituted a new approach to policymaking and program planning by assigning employee representatives and first-line supervisors to various task forces, to make detailed studies and recommendations on specific matters. Major task force studies related to leave usage policy and overhaul of the safety program.

A new employee career counseling service was set up to provide personal assistance to employees on request. Employees interested in advancement have been encouraged to make full use of the service to ascertain their potential development within the new promotion policy.

Director's report to employees.—On June 30, 1969, the Director issued an "Annual Report to Employees," "as shareholders in the Bureau of Engraving and Printing." Every employee received a copy. This report, the first of its kind, summarized progress made in the Bureau during fiscal 1969 and set forth management plans for continued progress in 1970. Throughout, the Director emphasized his personal and intense interest in "people" as management's best tool. He defined the Bureau's success in completion of its mission by stating:

"My evaluation of 'success' is not, and will not be predicated solely on the number of pieces of product produced nor the fact that the product was produced at reduced costs. This Bureau's completion of its assignment will not be a success unless that assignment is accomplished in concert with the well-being of Bureau employees."

Training program.—The Bureau's craft training opportunities program continued to progress. The 81 apprentices selected through the concept of identifying ability to learn, instead of through the traditional concept of requiring attained levels of education and precise subject matter, have validated this approach in all craft areas. At the end of the year, 20 apprentices had been promoted to journeyman positions in the plate printing and plate finishing crafts and a former Bureau guard had been placed as an apprentice in the highly skilled bank note designing craft, because of his artistic background and training.

An internal printing management trainee program was established, with a graduate from a printing management curriculum appointed as the first trainee.

In various other training activities during the year, 1,576 employees completed Bureau or departmental training courses; 75 employees completed interagency training courses; and 110 employees attended specialized seminars, training classes, conferences, and exhibits sponsored by nongovernment organizations.

Equal employment opportunity.—Employee committees established under the equal employment opportunity program began their second year of operation in July 1968. Meetings were held with 500 employee members during fiscal 1969. At one meeting, the Director presented the Bureau's equal employment opportunity policy and philosophy and discussed the role of employee committees in the program. Uninhibited discussions on all Bureau practices and operations were encouraged. As evidence of the importance attached to this program, the Deputy Director of the Bureau is the Equal Employment Opportunity Officer.

Safety program.—In April 1969, a comprehensive plan to revitalize the safety program was announced. Significant contributions were made by employee members of the special task force appointed in connection with this project. The new program encompasses a special "Safety Idea Program," under which the employee making the most significant contribution to the safety effort each quarter will be granted a $50 cash award, and a "Safety Action Plan," which has only one purpose, the prevention of accidents in the Bureau. A special edition of the "Newsletter" was devoted exclusively to safety matters. In May, the Bureau achieved a ZERO accident rate, with no lost-time injuries among over a half-million work hours. This record continued through the close of the fiscal year. A continuing management objective will be to sustain the momentum now generated in this program.

Deliveries of finished work

A comparative statement of deliveries of finished work for fiscal years 1968 and 1969 appears in the Statistical Appendix.

Finances

Bureau operations are financed by reimbursements to the Bureau of Engraving and Printing fund, as authorized by law. Comparative financial statements follow.

Statement of financial condition June 30, 1969 and 1968

Assets	June 30, 1969	June 30, 1968
Current assets:		
Cash on hand	$40	
Cash with the Treasury	4,286,418	$4,279,538
Accounts receivable	2,303,317	3,848,078
Inventories: [1]		
Finished goods	2,653,341	2,039,725
Work in process	3,730,959	3,211,502
Raw materials	1,416,257	1,475,126
Stores	1,419,096	1,211,096
Prepaid expenses	153,165	131,705
Total current assets	15,962,593	16,196,770
Fixed assets: [2]		
Plant machinery and equipment	22,635,075	22,053,504
Motor vehicles	163,862	160,744
Office machines	318,936	313,374
Furniture and fixtures	494,045	484,681
Dies, rolls, and plates	3,955,961	3,955,961
Building appurtenances	3,594,399	3,449,951
Fixed assets under construction	608,987	203,630
	31,771,265	30,621,845
Less accumulated depreciation	17,942,788	16,548,234
	13,828,477	14,073,611
Excess fixed assets (written down to 10 percent and 30 percent of book value, 1969 and 1968, respectively)	888	8,051
Total fixed assets	13,829,365	14,081,662
Deferred charges	230,070	89,117
Total assets	30,022,028	30,367,549
Liabilities and investment of the United States		
Liabilities:		
Accounts payable	321,491	564,312
Accrued liabilities:		
Payroll	1,329,050	1,094,515
Accrued leave	1,993,307	2,041,457
Constructive receipts [3]	581,150	
Other	200,429	177,340
Trust and deposit liabilities	304,774	1,367,399
Other liabilities	1,631	307
Total liabilities [4]	4,731,832	5,245,330
Investment of the U.S. Government:		
Appropriation from U.S. Treasury	3,250,000	3,250,000
Donated assets, net	22,000,930	22,000,930
	25,250,930	25,250,930
Accumulated earnings, or deficit (−) [5]	39,266	−128,711
Total investment of the U.S. Government	25,290,196	25,122,219
Total liabilities and investment of the U.S. Government	30,022,028	30,367,549

[1] Finished goods and work in process inventories are valued at cost, including administrative and service overhead. Except for the distinctive paper which is valued at the acquisition cost, raw materials and stores inventories are valued at the average cost of the materials and supplies on hand.

[2] Plant machinery and equipment, furniture and fixtures, office machines, and motor vehicles acquired on or before June 30, 1950, are stated at appraised values. Additions since June 30, 1950, and all building appurtenances are valued at acquisition cost. The act of Aug. 4, 1950 (31 U.S.C. 181a), which established the Bureau of Engraving and Printing fund, specifically excluded land and buildings valued at about $9,000,000 from the assets of the fund. Also excluded are appropriated funds of about $7,184,000 expended or transferred to GSA for extraordinary expenses in connection with uncapitalized building repairs and air conditioning. As of June 30, 1969, fixed assets included $6,855,426 of fully depreciated items, principally plant machinery and equipment and building appurtenances. Dies, rolls, and plates were capitalized at July 1, 1951, on the basis of average unit costs of manufacture, reduced to recognize their estimated useful life. Since July 1, 1951, all costs of dies, rolls, and plates have been charged to operations in the year acquired.

[3] The accrual for constructive receipts is an accounting change instituted in fiscal year 1969. This item is the estimated value of work performed by contractors to special specification, which had not been delivered to or accepted by the Bureau as of June 30, 1969; contra entries are to raw materials $93,402, stores $9,376, and fixed assets under construction $478,372.

[4] In addition, outstanding commitments with suppliers for unperformed contracts and undelivered purchase orders totaled $19,046,885 as of June 30, 1969, as compared with $6,393,232 on June 30, 1968. Included in the total of $19,046,885 is $15,062,397 representing a 4-year contract entered into with a supplier of distinctive paper.

[5] See footnote 2, succeeding table.

Statement of income and expense, fiscal years 1969 and 1968

Income and expense	1969	1968
Operating revenue: Sales of engraving and printing	$40,271,162	$39,221,724
Operating costs:		
Cost of sales:		
Direct labor	17,348,413	16,016,960
Direct materials used	6,342,962	6,037,230
Contract printing (postage stamps)	515,186	238,261
Prime cost	24,206,561	22,292,451
Overhead costs:		
Salaries and indirect labor	10,858,029	10,032,220
Factory supplies	1,699,643	1,718,343
Repair parts and supplies	428,795	410,567
Employer's share personnel benefits	1,990,632	1,834,383
Rents, communications and utilities	879,692	759,145
Other services	560,589	581,200
Depreciation and amortization	1,666,450	1,665,276
Gains (—), or losses on disposal or retirement of fixed assets	26,122	50,277
Sundry expense (net)	86,590	116,892
Total overhead	18,196,542	17,168,303
Total costs [1]	42,403,103	39,460,754
Less:		
Nonproduction costs:		
Shop costs capitalized	482,404	314,804
Cost of miscellaneous services rendered other agencies	684,441	642,589
	1,166,845	957,393
Cost of production	41,236,258	38,503,361
Net increase (—) or decrease in finished goods and work in process inventories from operations	—1,133,073	670,727
Cost of sales	40,103,185	39,174,088
Operating profit, or loss (—)	167,977	47,636
Nonoperating revenue:		
Operation and maintenance of incinerator and space utilized by other agencies	544,184	510,941
Other direct charges for miscellaneous services	140,257	131,648
	684,441	642,589
Nonoperating costs:		
Cost of miscellaneous services rendered other agencies	684,441	642,589
Net profit, or loss (—) for the year [2]	167,977	47,636

[1] No amounts are included in the accounts of the fund for (1) interest on the investment of the Government in the Bureau of Engraving and Printing fund, (2) depreciation on the Bureau's buildings excluded from the assets of the fund by the Act of Aug. 4, 1950, and (3) certain costs of services performed by other agencies on behalf of the Bureau.

[2] The Act of Aug. 4, 1950, provided that customer agencies make payment to the Bureau at prices deemed adequate to recover all costs incidental to performing work or services requisitioned. Any surplus accruing to the fund in any fiscal year is to be paid into the general fund of the Treasury as miscellaneous receipts except that any surplus is applied first to restore any impairment of capital by reason of variations between prices charged and actual costs. Accordingly, $128,711 of the total profit of $167,977 which resulted from operations in fiscal year 1969 will be applied to offset cumulative losses in prior years. The balance, or $39,266, will be returned to the Treasury as miscellaneous receipts.

Statement of source and application of funds, fiscal years 1969 and 1968

Funds provided and applied	1969	1968
Funds provided:		
Sales of engraving and printing	$40,271,162	$39,221,724
Operation and maintenance of incinerator and space utilized by other agencies	544,184	510,941
Other direct charges for miscellaneous services	140,257	131,648
Total	40,955,603	39,864,313
Less cost of sales and services (excluding depreciation and other charges not requiring expenditure of funds· Fiscal year 1969, $1,692,572; fiscal year 1968, $1,715,553)	39,095,054	38,101,124
	1,860,549	1,763,189
Sale of surplus equipment	15,479	6,727
Total funds provided	1,876,028	1,769,916
Funds applied:		
Acquisition of fixed assets	1,403,350	962,946
Acquisition of experimental equipment; and plant repairs and alterations to be charged to future operations	193,357	68,359
Increase in working capital	279,321	738,611
Total funds applied	1,876,028	1,769,916

Fiscal Service

BUREAU OF ACCOUNTS

The Bureau's functions are Governmentwide in scope. They include central accounting and financial reporting relating to the Government as a whole; disbursing for virtually all civilian agencies; supervising the Government's depositary system; determining qualifications of insurance companies to do surety business with Government agencies; a variety of other central fiscal activities, such as investment of trust funds, agency borrowings from the Treasury, international claims and indebtedness, and liquidation of the Postal Savings System; and Treasury staff representation in the joint financial management improvement program.

Management improvement

Savings of $2,012,000 were realized during fiscal 1969 under the cost reduction and management improvement program, attributable to further improvements in technology and systems, realinement of organization and staffing, and the benefits of continuing programs for the development of people in management and operating skills at all levels.

Personnel

Continued emphasis was placed on achieving better manpower utilization during the year. Toward this goal, plans for a reorganization within the Bureau were completed, to become effective on the first day of fiscal 1970. Functions are redistributed and amalgamated, resulting in three major operating divisions, instead of four, enhancing optimum utilization of manpower and the realization of maximum potential of career personnel.

Systems improvement

Bureau staff continued to represent the Treasury on the steering committee and study teams of the joint financial management improve-

ment program. Primary attention was given to implementing the recommendations of the President's Commission on Budget Concepts as described under "Government-wide Financial Management." [1] Other systems work during the year included various studies to improve internal procedures and further codification of Government-wide regulations within the Treasury Fiscal Requirements Manual. Procedural requirements were prescribed for Government agencies dealing with the following matters: (1) the withdrawal of cash from the Treasury for advances under Federal grants and other programs; (2) financial reporting on Federal lending programs; (3) the deposit of public moneys in the general account of the Treasurer of the United States; (4) allotments of pay of Federal employees for savings accounts in financial institutions and also remittance of net salaries or wages directly to employee accounts in financial institutions; (5) the withholding of State income taxes from compensation of Federal personnel; and (6) financial reporting of Federal aid payments to State and local governments.

Central accounting and reporting

The accounting manual covering the Bureau's system of central accounting for the Government as a whole was approved by the General Accounting Office in October 1968. The separate manual covering the Bureau's central operations for foreign currency transactions was approved June 30, 1969.

The Annual Report of the Secretary of the Treasury for fiscal year 1968 was published in two parts, for the first time. Part one, covering the Secretary's statement, review of fiscal operations, administrative reports, and exhibits, was published in January 1969. Part two, the Statistical Appendix, containing all tables, was published in June 1969. This permitted more timely publication of Part one. Historical data on the new unified budget basis was published for each year back to 1953.

New tables showing monthly trends, receipts by sources and outlays by function were incorporated in the "Monthly Statement of Receipts and Expenditures of the United States Government" during 1969. In addition, the data on capital movements in the "Treasury Bulletin" were completely revised to broaden scope and detail.

During the year, Treasury Circular No. 1014 relating to Federal aid payments to State and local governments was revised to achieve greater consistency with other data on Federal aid. Also, a revision of Treasury Circular No. 966 relating to business-type financial statements was undertaken with the goal of producing financial statements fully integrated with the central accounting system, coordinate with the planned conversion of the Federal budget from the cash to the accrual basis in measuring receipts and expenditures.

Auditing

During fiscal year 1969, the audit staff conducted nine financial audits of Bureau activities. In addition, management surveys were performed in six regional offices.

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[1] In the "Review of Treasury Operations" section of this report, pages 8–10.

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The audit staff made the annual examination of financial statements of surety companies holding Certificates of Authority as acceptable sureties on bonds running in favor of the United States (6 U.S.C. 8). Such certificates are renewable each July 1 and a list of approved companies (Department Circular 570, Revised) is published annually in the "Federal Register" for the information of Federal bond approving officers and persons required to give bonds to the United States. As of June 30, 1969, a total of 254 companies held certificates.

A verification of the cash and securities held by the Office of the Treasurer of the United States was made as of the close of business on May 8, 1969, the date on which the new Treasurer of the United States assumed the duties of the office. General coordination and staff assistance were furnished for the annual audit of the Exchange Stabilization Fund.

Disbursing operations

In fiscal 1969, the Division of Disbursement achieved a unit production cost of 2.6 cents per item, the lowest ever. A total of 455.7 million checks and savings bonds were issued for the programs of more than 1,400 agency stations. Disbursing operations and various other services were performed by 11 disbursing offices in major cities of the contiguous United States, Hawaii, Alaska, and Manila, Philippines. Also, payroll accounting services for certain small agencies were performed in five disbursing centers equipped with computers. A twelfth office, a computerized disbursing center in Austin, Tex., was organized during the year, to become operational in August 1969. Conversion of the Denver Regional Office to computer operations was undertaken, to become effective in fiscal 1970.

Measurable standards of production and technological advances have contributed significantly to progress in the central disbursing function over many years. A recent example was the installation in several offices, late in fiscal 1969, of new high-speed inserting and sealing machines; another was the installation of an automated system for miscellaneous (one-time) payments in the Washington Disbursing Center. The latter is the biggest breakthrough in processing miscellaneous payments since the Masterfax (heat transfer) technique was installed in 1965. Initial savings amounted to $50,000 (with further savings for General Services Administration, as a result of reduced space requirements). Additional savings are anticipated as the system is extended to other offices and greater use is made of system byproducts.

Comprehensive study of the claims and returned check activity was initiated, with a view to possibly automating many of the costly manual operations involved.

The central disbursing function continues to provide impetus for close interagency coordination. Regularly scheduled staff consultations with major agencies such as the Social Security Administration, Internal Revenue Service, and Veterans' Administration resulted in many mutually beneficial improvements in operations during the year.

A comparison of the workloads for fiscal 1968 and 1969 is shown in the following table.

Classification	Volume	
	1968	1969
Operations financed by appropriated funds:		
Checks:		
Social security benefits	246,752,214	258,664,062
Veterans' benefits	65,292,702	68,683,466
Income tax refunds	51,868,895	50,968,396
Veterans' national service life insurance dividends programs	2,254,582	3,868,129
Other	52,797,084	51,610,090
Savings bonds	7,273,797	7,497,943
Adjustments and transfers	252,322	264,368
	426,491,596	441,556,454
Operations financed by reimbursements:		
Railroad Retirement Board	12,894,907	13,214,575
Bureau of Public Debt (General Electric Co. bond program)	978,591	1,011,467
Total workload—reimbursable items	13,873,498	14,226,042
Total workload	440,365,094	455,782,496

Deposits, investments, and related activities

Federal depositary system.—The types of depositary services provided and the number of depositaries for each of the authorized services as of June 30, 1968 and 1969, are shown in the following table.

Type of service provided by depositaries	1968	1969
Receive deposits from taxpayers and purchasers of public debt securities, for credit in Treasury tax and loan accounts	12,613	12,593
Receive deposits from Government officers for credit in Treasurer's general accounts	1,506	1,500
Maintain official checking accounts of Government officers	7,273	7,576
Furnish bank drafts to Government officers in exchange for collections	1,250	1,430
Maintain State unemployment compensation benefit payments and clearing accounts	53	53
Operate limited banking facilities:		
In the United States and its outlying areas	245	233
In foreign areas	281	252

Investments.—The Secretary of the Treasury, under specific provisions of law, is responsible for investing various Government trust funds. The Department also furnishes investment services for other funds of Government agencies. At the end of fiscal 1969, Government trust funds and accounts held public debt securities (including special securities issued for purchase by the major trust funds as authorized by law), Government agency securities, and securities of privately owned Government-sponsored enterprises. See the Statistical Appendix for table showing the investment holdings by Government agencies and accounts.

The accounting system for the investment operations was approved by the Comptroller General of the United States on March 13, 1969.

Loans by the Treasury.—The Bureau administers loan agreements with those corporations and agencies that have authority to borrow from the Treasury. See the Statistical Appendix for tables showing the status of Treasury loans to Government corporations and agencies as of June 30, 1969.

Surety bonds.—Executive agencies are required by law (6 U.S.C. 14) to obtain, at their own expense, blanket, position schedule, or other types of surety bonds covering employees required to be bonded. The

legislative and judicial branches are permitted by law to follow the same procedure. A summary of bonding activities of Government agencies follows:

Number of officers and employees covered on June 30, 1969	904,398
Aggregate penal sums of bonds procured	$3,326,555,300
Total premiums paid by the Government in fiscal year 1969	$317,646
Administrative expenses in fiscal year 1969	$69,253

Foreign indebtedness

World War I.—The governments of Finland and Greece made payments during fiscal 1969 of $353,542.50 and $328,898.02, respectively. For status of World War I indebtedness to the United States, see the Statistical Appendix.

Credit to the United Kingdom.—The installment of principal and interest due December 31, 1968 (under the Financial Aid Agreement of December 6, 1945, as amended March 6, 1957), was deferred. Payment was made of $8.6 million representing interest on installments previously deferred. Through June 30, 1969, cumulative payments totaled $1,660.2 million, of which $938.7 million was interest. A principal balance of $3,028.5 million remains outstanding; interest installments of $319.9 million which have been deferred by agreement also were outstanding at the fiscal yearend.

Japan, postwar economic assistance.—The Government of Japan made payments in fiscal year 1969 of $36.5 million principal and $7.4 million interest on its indebtedness arising from postwar economic assistance. Cumulative payments through June 30, 1969, totaled $222 million principal and $63.4 million interest, leaving an unpaid principal balance of $268 million.

Payment of claims against foreign governments

The ninth installment of $2 million was received from the Polish Government under the Agreement of July 16, 1960, and pro rata payments on each unpaid award were authorized.

The fourth of five annual installments of $700,000 was received from the Government of Yugoslavia under terms of the Yugoslav Claims Agreement of November 5, 1964. The Foreign Claims Settlement Commission continued to certify to the Secretary of the Treasury awards for payment under the agreement. Initial payments up to $1,000 on all awards certified to be continued to be made during the fiscal year. See the Statistical Appendix for more details.

Defense lending

Defense Production Act.—Loans outstanding were reduced from $10.1 million to $7.9 million during fiscal 1969. Further transfers of $2.7 million were made to the account of the General Services Administration, from the net earnings accumulated since inception of the program, bringing the total of these transfers to $26.5 million.

Federal Civil Defense Act.—Outstanding loans were reduced from $386,375 to $340,586 during fiscal 1969.

Liquidation of Reconstruction Finance Corporation assets.—The Secretary of the Treasury's responsibilities in the liquidation of RFC assets relate to completing the liquidation of business loans and securities with individual balances of $250,000 or more as of June 30, 1957,

and securities of and loans to railroads and financial institutions. Net income and proceeds of liquidation amounting to $54.4 million have been paid into Treasury as miscellaneous receipts since July 1, 1957. Total unliquidated assets as of June 30, 1969, had a gross book value of $8.1 million.

Liquidation of Postal Savings System

Effective July 1, 1967, pursuant to the act of March 28, 1966 (39 U.S.C. 5225–5229) the unpaid deposits of the Postal Savings System as shown on the books of the Board of Trustees, totaling $56,788,958.29 (including accrued interest), were to be transferred to the Secretary of the Treasury, of which $50 million was transferred during fiscal 1968 and the remainder during fiscal 1969. These deposits are held in trust by the Secretary pending proper application for payment. Under interim arrangements, except for certain dormant accounts, local post offices process applications for withdrawal of funds by depositors and forward them to the Bureau for payment. Payments totaling $51,620,-291.70 have been made to date, including $16,270,056.92 during fiscal 1969.

Federal tax deposits

The Federal Tax Deposit System is used for the collection of individual and corporate income taxes, social security taxes, railroad retirement taxes, and Federal excise taxes. As described on page 11 of the 1967 annual report, the Bureau of Accounts prepares and mails Federal Tax Deposit forms quarterly to private enterprises. During fiscal 1969, five computer offices printed and mailed 82 million forms, an increase of 32 million over the previous year. The following table shows the volume of deposits processed by Federal Reserve banks for fiscal years 1961–69.

Fiscal year	Individual income and social security taxes	Railroad retirement taxes	Federal excise taxes	Corporate income taxes	Total
1961	9,908,068	10,724	618,971		10,537,763
1962	10,477,119	10,262	610,026		11,097,407
1963	11,161,897	9,937	619,519		11,791,353
1964	11,729,243	9,911	633,437		12,372,591
1965	12,012,385	9,859	644,753		12,666,997
1966	12,518,436	9,986	259,952		12,788,374
1967	15,007,304	10,551	236,538	22,783	15,277,176
1968	17,412,921	14,596	233,083	394,792	18,055,392
1969	23,939,080	12,479	272,048	1,297,052	25,520,659

NOTE.—Comparable data for 1944–60 will be found in the 1962 annual report, page 141.

Government losses in shipment

Claims totaling $330,988.69 were paid from the fund established by the Government Losses in Shipment Act, as amended. Details of operations under this act are shown in the Statistical Appendix.

Other operations

Donations and contributions.—During the year the Bureau of Accounts received "conscience fund" contributions totaling $25,929.05 and other unconditional donations totaling $262,173.13. Other Gov-

ernment agencies received conscience fund contributions and unconditional donations amounting to $5,948.26 and $146,757.25, respectively. Conditional gifts to further the defense effort amounted to $1,254.80. Gifts of money and the proceeds of real or personal property donated in fiscal 1969 for the purpose of reducing the public debt amounted to $132,327.42.

BUREAU OF THE PUBLIC DEBT

The Bureau of the Public Debt, in support of the management of the public debt, has responsibility for the preparation of Department of the Treasury circulars offering public debt securities, the direction of the handling of subscriptions and making of allotments, the formulation of instructions and regulations pertaining to each security issue, the issuance of the securities, and the conduct or direction of transactions in those outstanding. The Bureau is responsible for the final audit and custody of retired securities, the maintenance of the control accounts covering all public debt issues, the keeping of individual accounts with owners of registered securities and authorizing the issue of checks in payment of interest thereon, and the handling of claims on account of lost, stolen, destroyed, or mutilated securities.

The Bureau's principal office and headquarters is in Washington, D.C. Offices also are maintained in Chicago, Ill., and Parkersburg, W. Va., where most Bureau operations related to U.S. savings bonds and U.S. savings notes are handled. Under Bureau supervision many transactions in public debt securities are conducted by the Federal Reserve banks and their branches as fiscal agents of the United States. Approximately 18,900 (28,700 outlets) private financial institutions, industrial organizations, selected post offices, and others cooperate in the issuance of savings bonds and savings notes; and approximately 16,600 financial institutions (30,200 outlets) act as paying agents for savings bonds and savings notes.

Management improvement

During fiscal year 1969, the book-entry procedure was applied to U.S. savings bonds issued to the trustees of various qualified employees' savings and thrift plans.[1] In lieu of definitive bonds in the names of the trustees, issues are represented by entries in the records of the Federal Reserve banks and the Bureau. Provision has been made for the conversion of bonds from definitive to book-entry form and from book-entry to definitive form. This procedure is distinctly advantageous to the trustees by eliminating the need to maintain and control definitive bonds in relatively large numbers, and it increases the attractiveness of savings bonds to companies administering employee savings or thrift plans. The Bureau also realizes benefits through a reduction in the processing of definitive securities, particularly in the handling of reissues to effect partial redemption.

A computer system was installed in the Washington office to perform a variety of public debt accounting and other operations that had

[1] See exhibit 3.

been accomplished on conventional tabulating equipment. Operations are being converted on a phase basis with priority going to those which required a major portion of EAM time. In order to capitalize fully on potential benefits offered by electronic data processing, data recorders which enter information directly on tape have been installed to replace key punch machines.

A Division of Data Processing was established to become fully operational as of July 1, 1969, to operate the computer system in the Washington office and to provide ADP services to organizational segments of that office. The division will also advise the Commissioner on ADP matters on a Bureau-wide basis; deal with Treasury bureaus and other agencies regarding the interchange of data; and maintain a continuous study of developments in the field of ADP to help insure that Bureau operations are conducted with maximum efficiency and economy.

A full-scale review of the organizational alinement of functions in the Washington office resulted in two reorganizations that provide better utilization of manpower and more expeditious processing of workloads. Functions with respect to the maintenance of registers of serial numbers for stocks of securities received and issued, the authorization of stock shipments, and the development of data on accountability items in process, were relocated within the Division of Loans and Currency. In an interdivisional shift, the activity responsible for developing statistics on the ownership of Government securities was merged with a section producing reports of public debt accounting statistics.

Momentum was maintained in the program to have large volume issuing agents of series E savings bonds and savings notes report issues on magnetic tape in lieu of submitting registration stubs. Three more agents converted to the system during the year, bringing the total to nine with aggregate annual issues approximating 25 million pieces. Pilot studies were in process at the fiscal yearend with a number of other agents, including several in the private sector.

The verification of key punching of issue dates in retired savings bonds in card form has been reduced 90 percent; thorough testing proved that verification of 10 percent of the cards punched is sufficient as a quality control. Substantial monetary savings will be realized in the Parkersburg office through release of equipment and a reduction in manpower requirements.

Additional functions related to current income savings bond operations in the Chicago office were converted to electronic data processing, and more sophisticated programing approaches were applied to existing programs in order to process more data and provide more concise information.

Accomplishments in the various continuing management control programs, particularly those in forms and directives management, contributed significantly to the effective performance of the Bureau's functions. Recurring annual savings from employee suggestions

totaled $25,000 which was the highest figure reached in the last 10 years.

Bureau operations

The extent of the change in the composition of the public debt is one measure of the Bureau's work. The debt falls into two broad categories: public issues and special issues. Public issues consist of marketable Treasury bills, certificates of indebtedness, notes, and bonds; and nonmarketable securities, chiefly U.S. savings bonds, U.S. savings notes, U.S. retirement plan bonds, and Treasury bonds of the investment series. Special issues of certificates, notes, and bonds are made by the Treasury directly to various Government trust and certain other accounts and are payable only for these accounts.

During the year, 35,467 individual accounts covering publicly held registered securities other than savings bonds, savings notes, and retirement plan bonds were opened and 31,024 were closed. This increased the number of open accounts to 227,642 covering registered securities in the principal amount of $10,762 million. There were 428,328 interest checks with a value of $391 million issued during the year.

Redeemed and canceled securities other than savings bonds, savings notes, and retirement plan bonds received for audit included 7,470,191 bearer securities and 386,804 registered securities. Coupons totaling 16,659,286 were received.

During the year 21,913 registration stubs of retirement plan bonds and 12,170 retirement plan bonds were received for audit.

A summary of public debt operations handled by the Bureau appears on pages 19–23 of this report and in the Statistical Appendix.

U.S. savings bonds.—The issuance and redemption of savings bonds results in a heavy administrative burden for the Bureau of the Public Debt, involving: Maintenance of alphabetical and numerical ownership records for the 3.2 billion bonds issued since 1935; adjudication of claims for lost, stolen, and destroyed bonds (which totaled 2.4 million pieces on June 30, 1969); and the handling and recording of retired bonds.

Detailed information on sales, accrued discount, and redemptions of savings bonds will be found in the Statistical Appendix.

There were 124 million stubs or records on magnetic tape and microfilm representing the issuance of series E bonds received for registration, making a grand total of 3,122 million, including reissues, received through June 30, 1969.

All registration stubs of series E savings bonds and all retired series E savings bonds are microfilmed, audited, and destroyed, after required permanent record data are prepared by an EDP system in the Parkersburg office. The following table shows the status of processing operations for savings bonds and savings notes in the Parkersburg office.

Fiscal year	Received	Microfilmed	Key punched	Converted to magnetic tape	Audited and classified	Destroyed	Balance: Unfilmed	Balance: Not key punched	Balance: Not converted to magnetic tape	Balance: Unaudited
Stubs of issued card type series E savings bonds (in millions of pieces)										
1958–64	608	604	601	601	598	532	4.6	7.2	7.2	9.9
1965	98	101	101	101	102	124	2.3	4.5	4.5	6.6
1966	101	101	100	100	100	100	2.3	5.5	5.9	7.5
1967	104	104	105	105	103	103	2.6	5.2	5.2	8.9
1968	102	103	103	103	103	98	1.7	4.4	4.4	8.1
1969	104	102	102	102	102	104	3.1	6.1	6.6	9.7
Total [1]	1,118	1,115	1,112	1,112	1,109	1,061				
Retired card type series E savings bonds and savings notes [2] (in millions of pieces)										
1958–64	375	373	370	370	368	340	2.3	5.0	5.0	6.8
1965	75	76	77	77	77	60	1.7	3.2	3.5	5.2
1966	82	81	80	80	80	92	2.2	5.0	5.0	6.5
1967	87	88	87	87	86	85	2.0	4.9	5.5	8.3
1968	95	94	96	97	95	84	2.5	3.6	3.6	7.6
1969	111	110	108	108	106	98	3.4	6.7	6.7	11.9
Total	824	821	818	818	813	759				
Retired paper type series E savings bonds (in millions of pieces)										
1962–64 [3]	45.0	44.4	43.6	43.6	42.9	28.5	0.6	1.4	1.4	2.1
1965	20.4	20.5	21.0	20.9	21.2	11.0	.5	.8	.9	1.3
1966	19.3	19.4	19.1	19.2	19.3	33.9	.4	1.0	1.0	1.3
1967	16.8	16.8	17.0	17.0	16.7	16.0	.4	.8	.8	1.4
1968	15.2	15.2	15.3	15.2	15.3	13.8	.4	.7	.8	1.3
1969	13.7	13.7	13.7	13.7	13.7	18.4	.4	.7	.8	1.3
Total	130.4	130.0	129.7	129.6	129.1	121.6				
Stubs of issued U.S. savings notes [2] (in millions of pieces)										
1967	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
1968	6.9	6.6	6.5	6.5	6.2	2.3	0.3	0.4	0.4	0.7
1969	11.0	10.9	10.7	10.6	10.6	9.3	.4	.7	.7	1.1
Total	17.9	17.5	17.2	17.2	16.8	11.6				

*Less than 50,000.
[1] Excludes records received on magnetic tape: 5.3 million in 1965, 6.4 million in 1966, 12.8 million in 1967, 17.2 million in 1968, and 19.9 million in 1969, for a total of 61.6 million.
[2] U.S. savings notes were first issued in May 1967.
[3] In 1962 (and in prior years) most paper type bonds were processed in other offices manually and on tabulating equipment.

Of the 117.6 million series A–E savings bonds and savings notes redeemed and charged to the Bureau during the year 114.7 million (97.5 percent) were redeemed by authorized paying agents. For these redemptions these agents were reimbursed quarterly at the rate of 15 cents each for the first 1,000 bonds and notes paid and 10 cents each for all over the first 1,000 for a total of $14,561,205 and an average of 12.70 cents per bond and note.

For the number of savings bonds outstanding as of June 30, 1969, by series and denomination, see the Statistical Appendix.

The following table shows the number of issuing and paying agents for series A–E savings bonds by classes.

June 30	Post offices [1]	Banks	Building and savings and loan associations	Credit unions	Companies operating payroll plans	All others	Total [2]
			Issuing agents				
1945	24,038	15,232	3,477	2,081	[3] 9,605	(3)	54,433
1950	25,060	15,225	1,557	522	3,052	550	45,966
1955	2,476	15,692	1,555	428	2,942	588	23,681
1960	1,093	16,436	1,851	320	2,352	643	22,695
1965	943	14,095	1,702	246	1,695	510	19,191
1966	934	14,114	1,710	241	1,621	482	19,102
1967	901	14,181	1,717	231	1,541	460	19,031
1968	870	14,234	1,701	227	1,485	448	18,965
1969	836	14,267	1,711	230	1,408	446	18,897
			Paying agents				
1945		13,466					13,466
1950		15,623	874	137		57	16,691
1955		16,269	1,188	139		56	17,652
1960		17,127	1,797	169		60	19,153
1965		14,190	1,816	157		15	16,178
1966		14,247	1,857	164		15	16,283
1967		14,264	1,884	165		14	16,327
1968		14,304	1,970	175		79	16,528
1969		14,336	1,997	176		80	16,589

[1] Estimated by the Post Office Department for 1955 and thereafter. Sale of series E savings bonds was discontinued at post offices at the close of business on Dec. 31, 1953, except in those localities where no other public facilities for their sale were available.

[2] Effective Dec. 31, 1960, a substantial reduction was made due to reclassification by Federal Reserve banks to include only the actual number of entities currently qualified. Does not include branches active in the savings bond program.

[3] "All others" included with companies operating payroll plans.

Interest checks issued on current income-type savings bonds (series H and K) during the year totaled 4,630,223 with a value of $325,700,776. New accounts established for series H bonds totaled 73,386 while accounts closed totaled 139,322, a decrease of 65,936 accounts.

Applications received during the year for the issue of duplicates of savings bonds lost, stolen, or destroyed after receipt by the registered owner or his agent totaled 43,908. In 25,663 of such cases the issuance of duplicate bonds was authorized. In addition 30,602 applications for relief were received in cases where the original bonds were reported as not being received after having been mailed to the registered owner or his agent.

OFFICE OF THE TREASURER OF THE UNITED STATES

The Treasurer of the United States is responsible for the receipt, custody, and disbursement, upon proper order, of the public moneys and for maintaining records of the source, location, and disposition of these funds. The functions performed by the Treasurer's Office include the verification and destruction of U.S. paper currency; the redemption of public debt securities; the keeping of cash accounts in the name of the Treasurer; the acceptance of deposits made by Government officers for credit; and the custody of bonds held to secure public deposits in commercial banks. In addition, Federal Reserve banks, as depositaries and fiscal agents of the United States, perform many similar functions for the Treasurer.

Commercial banks qualifying as depositaries provide banking facilities for the Government in the United States and in foreign countries. Data on the transactions handled for the Treasurer by Federal Reserve

banks and commercial banks are reported daily to the Treasurer and are entered in the Treasurer's general accounts.

The Treasurer maintains current summary accounts of all receipts and expenditures; pays the principal and interest on the public debt; provides checking account facilities for Government disbursing officers, corporations, and agencies; pays checks drawn on the Treasurer of the United States and reconciles the checking accounts of the disbursing officers; procures, stores, issues, and redeems U.S. currency; audits redeemed Federal Reserve currency; examines and determines the value of mutilated currency; and acts as special agent for the payment of principal and interest on certain securities of U.S. Government corporations.

The Office of the Treasurer maintains facilities at the Treasury to: Accept deposits of public moneys by Government officers; cash U.S. savings bonds and checks drawn on the Treasurer; receive excess and unfit currency and coins from banks in the Washington, D.C., area; and conduct transactions in both marketable and nonmarketable public debt securities. The Office also prepares the "Daily Statement of the United States Treasury" and the monthly "Statement of United States Currency and Coin."

Under the authority delegated by the Comptroller General of the United States, the Treasurer processes claims arising from forged endorsements and other irregularities involving checks paid by the Treasurer and passes upon claims for substitute checks to replace lost or destroyed unpaid checks.

The Treasurer of the United States is custodian of bonds held to secure public deposits in commercial banks, and miscellaneous securities held for other agencies.

Management improvement

ADP management.—The automated payroll services provided by the Treasurer's Office were extended in January 1969 to include about 360 employees of the Comptroller of the Currency. This brings to over 5,000 the number of employees serviced in Washington by the Treasurer's Office.

The Treasurer's Office has established an outstanding record in performing ADP services for other bureaus, agencies, and departments. The Office extended, through sharing, the usage of its computer systems which were installed and are used primarily to process Government checks. During fiscal year 1969, the computer systems were used a total of about 9,560 hours by personnel of that Office in performing services for other bureaus and agencies on a reimbursable basis. In addition, the computers were used about 869 hours by personnel of other agencies after regular working hours and on weekends when the equipment was not needed for operations performed by the Treasurer's Office. The serviced agencies included the Post Office, Labor, Agriculture, and Navy departments.

About 90 percent of the computer systems were purchased in 1962 and 1963 and were almost fully amortized by the beginning of fiscal 1969. Because of this, the Office was able to provide computer time to other agencies at a cost of about $87,000. Purchase of this time through a commercial computer service company would have required

an expenditure of about $328,000, thus providing a cost avoidance of $241,000 to the serviced departments.

A revision in the computer maintenance service agreements eliminating second shift and weekend coverage, resulted in annual recurring savings of $8,000.

Currency and coin services.—The facilities for providing currency and coin services to commercial banks in the Washington metropolitan area were transferred from the Main Treasury Building to the Bureau of Engraving and Printing Annex Building. This action eliminated safety hazards to the public and other employees which existed under the previous arrangements and permits the operations to be performed entirely in a secured area.

Assets and liabilities in the Treasurer's account

A summary of the assets and liabilities in the Treasurer's account at the close of the fiscal years 1968 and 1969 appears in the Statistical Appendix.

The assets of the Treasurer consist of gold bullion, coin, coinage metals including silver, paper currency, deposits in Federal Reserve banks, and deposits in commercial banks designated as Government depositaries.

Gold.—The Treasurer's gold assets were nearly the same at the close of fiscal 1969 as at the beginning. This was the first fiscal year since 1957 in which no appreciable outflow of gold occurred.

On the daily Treasury statement basis the beginning balance of $10,366.9 million was increased by purchases of $353.8 million and reduced by sales of $351.7 million. The International Monetary Fund made deposits of $3.2 million and withdrawals of $5.2 million, leaving a closing balance of $10,367.0 million.

Silver and other coinage metals.—Sales of silver for domestic industrial use were more than offset by the increase in silver coin bars obtained from melting silver coins. On the daily Treasury statement basis silver holdings increased from $85.3 million to $112.9 million during fiscal 1969. Other coinage metals declined from $129.6 million to $120.2 million in the same period.

Balances with depositaries.—The following table shows the number of each class of depositaries and balances on June 30, 1969.

	Number of accounts with depositaries [1]	Deposits to the credit of the Treasurer of the United States June 30, 1969
Federal Reserve banks and branches	36	[2] $1,651,115,497
Other domestic depositaries reporting directly to the Treasurer	25	8,704,248
Depositaries reporting through Federal Reserve banks:		
General depositaries, etc	2,491	125,353,908
Special depositaries, Treasury tax and loan accounts	12,593	4,524,840,151
Foreign depositaries [3]	65	24,226,574
Total	15,210	6,334,240,378

[1] Includes only depositaries having balances with the Treasurer of the United States on June 30, 1969. Excludes depositaries designated to furnish official checking account facilities or other services to Government officers, but which are not authorized to maintain accounts with the Treasurer. Banking institutions designated as general depositaries are frequently also designated as special depositaries, hence the total number of accounts exceeds the number of institutions involved.

[2] Includes checks for $393,210,788 in process of collection.

[3] Principally branches of U.S. banks and of the American Express International Banking Corp.

Bureau operations

Receiving and disbursing public moneys.—Government officers deposit moneys which they have collected to the credit of the Treasurer of the United States. Such deposits may be made with the Treasurer at Washington, or at Federal Reserve banks, or at designated Government depositaries, domestic or foreign. Certain taxes are also deposited directly by the employers or manufacturers who withhold or pay them. All payments are withdrawn from the Treasurer's account. Moneys deposited and withdrawn in the fiscal years 1968 and 1969, exclusive of certain intragovernmental transactions, are shown in the following table on the daily Treasury statement basis.

Deposits, withdrawals, and balances in the Treasurer's account	1968	1969
Balance at beginning of fiscal year	$7,758,994,525	$6,694,062,122
Cash deposits:		
Internal revenue, customs, trust fund, and other collections	165,086,296,205	201,734,755,299
Public debt receipts [1]	303,962,463,920	314,836,956,194
Less:		
Accruals on savings bonds and notes, retirement plan bonds, and Treasury bills	−5,319,480,407	−6,269,766,952
Purchases by Government agencies	−75,264,118,336	−89,894,340,903
Sales of securities of Government agencies in market	21,793,351,288	26,550,021,080
Total deposits	410,258,512,669	446,957,624,717
Cash withdrawals:		
Budget and trust accounts, etc	184,581,367,232	201,491,323,510
Public debt redemptions [1]	282,604,995,288	308,695,108,778
Less:		
Redemptions included in budget and trust accounts	−5,315,093,680	−6,336,585,803
Redemptions by Government agencies	−70,956,764,690	−81,745,188,465
Redemptions of securities of Government agencies in market	18,313,713,142	22,515,802,850
Total withdrawals	409,228,217,292	444,620,460,870
Change in clearing accounts (checks outstanding, deposits in transit, unclassified transactions, etc.), net deposits, or withdrawals (−)	−2,095,227,780	−1,927,687,949
Balance at close of fiscal year	6,694,062,122	7,103,538,020

[1] For details see Statistical Appendix.

Issuing and redeeming paper currency.—The Treasury is required by law (31 U.S.C. 404) to issue U.S. notes in amounts equal to those redeemed. The Treasurer's Office began issuing U.S. notes of the $100 denomination in October 1968 and discontinued issuing $5 U.S. notes when the supply was exhausted in February 1969. Currency needs for the $5 denomination are met by issuing Federal Reserve notes. This action will simplify the sorting of unfit $5 notes in the Treasurer's Office and in the Federal Reserve banks in future years, as issuance of silver certificates and U.S. notes of the $5 denomination will have been discontinued and there will be fewer notes of those types to sort when they become unfit.

U.S. notes and silver certificates unfit for further circulation are redeemed and destroyed at the Federal Reserve banks and branches and at the Treasurer's Office in Washington, D.C.

Federal Reserve notes constitute nearly 99 percent of the paper currency in circulation. When printed by the Bureau of Engraving and Printing these notes are held in a reserve vault subject to the order of the Comptroller of the Currency for their delivery. The Bureau ships notes to Federal Reserve agents and their representatives

at Federal Reserve banks and branches as needed. Federal Reserve banks then obtain notes for issuance to the commercial banking system by depositing equivalent amounts of collateral with their respective agents.

As the notes become unfit for further circulation they are redeemed under procedures prescribed by the Fiscal Assistant Secretary. Notes of the $1, $5, and $10 denominations redeemed in fiscal 1969 were cancelled, verified, and destroyed at the Federal Reserve banks and at the Treasury in Washington without being sorted by bank of issue. The Federal Reserve Board of Governors then apportioned the redemption of such notes among the banks of issue on a formula basis. Redeemed $20 notes were sorted by bank of issue until February 1969 when a formula for apportioning redemptions of this denomination was adopted and notes of the $50 and $100 denominations were sorted by bank of issue, then cancelled, verified, and destroyed at the same locations. The $500, $1,000, $5,000, and $10,000 denominations are sorted by bank of issue, cut in half and the lower halves forwarded to the Treasurer's Currency Verification Section in Washington, the banks retaining the upper halves and adjusting and destroying them after the Treasurer's verification is completed. In all cases the Federal Reserve Board of Governors serves as a clearing house for effecting appropriate settlements among the banks.

The Treasurer's Office accounts for Federal Reserve notes from the time that they are delivered by the Bureau of Engraving and Printing until finally redeemed and destroyed. The accounts show the amounts for each bank of issue and each denomination of notes held in the reserve vault, held by each Federal Reserve agent, or issued and outstanding.

The Cash Division redeems unfit paper currency of all types received locally in Washington and from Government officers abroad, as well as burned or mutilated currency from any source. During fiscal 1969 burned and mutilated currency for 50,985 claimants was examined and identified and payments made therefor totaling $11,867,966.

A comparison of the amounts of paper currency of all classes, issued, redeemed, and outstanding during the fiscal years 1968 and 1969 follows.

	Fiscal year 1968		Fiscal year 1969	
	Pieces	Amount	Pieces	Amount
Outstanding July 1	4, 630, 433, 420	$42, 495, 177, 099	4, 825, 036, 060	$45, 078, 310, 143
Issues during year	2, 268, 619, 466	13, 074, 100, 130	2, 381, 911, 597	13, 895, 698, 395
Redemptions during year	2, 074, 016, 826	10, 490, 967, 086	2, 124, 197, 050	11, 061, 247, 557
Outstanding June 30	4, 825, 036, 060	45, 078, 310, 143	5, 082, 750, 607	47, 912, 760, 981

Details of the issues and redemptions for fiscal year 1969 and of the amounts outstanding at the yearend are given by class of currency and by denomination in a table in the Statistical Appendix. Other tables in that volume give further information on the stock and circulation of money in the United States.

Processing Federal tax deposits.—Under provisions of Treasury Department Circular No. 1079, tax withholders and certain taxpayers are supplied with partially punched cards which they forward to their

banks with their tax payments. The cards are then routed to Federal Reserve banks which complete the punching and forward the cards to the Treasurer's Office in Washington. The Treasurer's Office enters the data from the cards on magnetic tapes which are furnished to the Internal Revenue Service for reconciliation with taxpayers' returns. This procedure obviates the need for any handling of tax remittances in the Department and expedites the crediting of tax payments in the Treasurer's account. Tax payments received under this procedure in fiscal year 1969 totaled $133,092.2 million and required the processing of 25.5 million cards.

Paying grants through letters of credit.—Treasury Department Circular No. 1075, dated May 28, 1964, established a procedure "to preclude withdrawals from the Treasury any sooner than necessary" in cases where Federal programs are financed by grants or other payments to State or local governments or to educational or other institutions. Under this procedure Government departments and agencies issue letters of credit which permit grantees to make withdrawals from the account of the Treasurer of the United States as they need funds to accomplish the object for which a grant has been awarded.

By the close of fiscal 1969, 46 Government agency accounting stations were making disbursements through letters of credit. A total of 61,259 withdrawal transactions, aggregating $21,089.5 million, were processed during the year, compared with 60,327 transactions, totaling $18,310.8 million in 1968.

Checking accounts of disbursing officers and agencies.—As of June 30, 1969, the Treasurer maintained 2,114 checking accounts, compared with 2,128 the year before. The number of checks paid by categories of disbursing officers during fiscal 1968 and 1969 follow.

Disbursing officers	Number of checks paid	
	1968	1969
Treasury	426, 439, 674	441, 920, 785
Army	38, 883, 267	39, 298, 690
Navy	39, 952, 041	41, 231, 278
Air Force	35, 882, 940	35, 643, 468
Other	28, 571, 971	26, 702, 633
Total	569, 729, 893	584, 796, 854

Settling check claims.—During the fiscal year the Treasurer processed 746,860 requests for stop payment on Government checks and 123,743 requests for removal of stoppage of payments.

The Treasurer acted upon 352,758 paid check claims during the year, including those referred to the U.S. Secret Service for investigation which involved the forgery, alteration, counterfeiting, or fraudulent issuance and negotiation of Government checks. Reclamation was requested from those having liability to the United States on 55,394 claims, and $6,834,943.15 was recovered. Settlements and adjustments were made on 42,162 cases totaling $7,064,751.61. Disbursements from the check forgery insurance fund, established to enable the Treasurer to expedite settlement of check claims, totaled $447,168.80. As recoveries are made, these moneys are restored to the fund. Settlements total-

ing $7,145,365.40 have been made from the Treasurer's check forgery insurance fund since it was established on November 21, 1941.

Claims by payees and others involving 178,013 outstanding checks were acted upon. Of these, 150,198 were certified for issuance of substitute checks valued at $55,262,867.05 to replace checks that were not received or were lost, stolen, or destroyed.

The Treasurer treated as canceled and transferred to accounts of agencies concerned for adjustment purposes the proceeds of 20,634 unavailable outstanding checks, totaling $36,854,298.93.

Collecting checks deposited.—Government officers during the year deposited more than 8,781,932 commercial checks, drafts, money orders, etc., with the Treasurer's Cash Division in Washington for collection.

Custody of securities.—The face value of securities held in the custody of the Treasurer as of June 30, 1968, and June 30, 1969, is shown below.

Purpose for which held	June 30	
	1968	1969
As collateral:		
To secure deposits of public moneys in depositary banks	$42, 439, 600	$40, 653, 200
In lieu of sureties	4, 622, 000	2, 345, 500
In custody for Government officers and others:		
For the Secretary of the Treasury [1]	33, 173, 227, 275	34, 643, 999, 656
For the Comptroller of the Currency	10, 015, 000	10, 452, 500
For the Federal Deposit Insurance Corporation	245, 000, 000	245, 000, 000
For the Rural Electrification Administration	162, 733, 373	159, 748, 818
For the District of Columbia	169, 955, 879	251, 259, 879
For the Commissioner of Indian Affairs	53, 245, 650	47, 363, 325
Foreign obligations [2]	12, 040, 894, 451	12, 036, 695, 451
Other [3]	49, 087, 296	44, 290, 017
For Government security transactions:		
Unissued bearer securities	4, 190, 314, 800	1, 652, 192, 800
Total	50, 141, 535, 324	49, 134, 001, 146

[1] Includes those securities listed of Government corporations and other business-type activities reported in the Statistical Appendix as held by the Treasury.
[2] Issued by foreign governments to the United States for indebtedness arising from World War I.
[3] Includes U.S. savings bonds in safekeeping for individuals.

Servicing securities for Government corporations and Federal agencies.—In accordance with agreements between the Secretary of the Treasury and various Government corporations and agencies, the Treasurer of the United States acts as special agent for the payment of principal of and interest on their securities. A comparison of these payments during the fiscal years 1968 and 1969 on the daily Treasury statement basis is as follows.

Payment made for	1968		1969	
	Principal redeemed	Interest paid	Principal redeemed	Interest paid
Banks for cooperatives	$2, 360, 260, 000	$59, 758, 851	$2, 629, 450, 000	$75, 469, 956
District of Columbia Armory Board		813, 981		714, 252
Federal home loan banks	5, 222, 730, 000	226, 814, 788	4, 163, 905, 000	266, 429, 348
Federal Housing Administration	55, 496, 650	23, 415, 580	43, 610, 350	23, 726, 623
Federal intermediate credit banks	4, 100, 310, 000	159, 051, 722	4, 919, 240, 000	218, 514, 873
Federal land banks	1, 656, 903, 600	238, 231, 761	1, 508, 483, 000	284, 307, 908
Federal National Mortgage Association	638, 404, 000	120, 826, 176	936, 347, 000	177, 093, 853
Others	159, 025	39, 160	119, 000	33, 983
Total	14, 034, 263, 275	828, 952, 018	14, 201, 154, 350	1, 046, 290, 796

Office of Foreign Assets Control

The Office of Foreign Assets Control is responsible for administering the Treasury Department's freezing controls. During fiscal 1969, the controls under the Foreign Assets Control Regulations and the Cuban Assets Control Regulations with respect to trade and financial transactions with, and assets in the United States of Communist China, North Korea, North Vietnam, Cuba and their nationals and the prohibitions relating to the purchase abroad and importation of Communist Chinese, North Korean, North Vietnamese, and Cuban merchandise were continued.

The Office of Foreign Assets Control also administered without change during fiscal 1969 the Transaction Control Regulations which supplement the export controls exercised by the Department of Commerce over direct exports from the United States to Eastern Europe and the U.S.S.R. These prohibit, unless licensed, any person within the United States from purchasing or selling or arranging the purchase or sale of internationally controlled strategic commodities located outside the United States for ultimate delivery to the Soviet Bloc. As in the case of both the Foreign Assets and Cuban Assets Control Regulations, the prohibitions apply not only to domestic American companies but also to foreign firms owned or controlled by persons within the United States.

The administration of assets remaining blocked under the World War II Foreign Funds Control Regulations which were transferred to the Office of Foreign Assets Control from the Department of Justice in fiscal 1966 was also continued. These regulations apply to assets blocked under Executive Order 8389 of Hungary, Czechoslovakia, Estonia, Latvia, Lithuania, East Germany, and nationals thereof who were on January 1, 1945, in Hungary or on December 7, 1945, in Czechoslovakia, Estonia, Latvia, or Lithuania or on December 31, 1946, in East Germany.

New regulations entitled "The Rhodesian Sanctions Regulations" were issued under Executive Order 11419 of July 29, 1968, extending the mandatory economic sanctions against Southern Rhodesia imposed to implement United Nations' resolutions. The new regulations superseded the "Rhodesian Transaction Regulations" which were revoked.[1]

Under the Foreign Assets Control and Transaction Control Regulations, the number of specific license applications received (including applications reopened) during fiscal year 1969 was 4,962. During that period a total of 4,997 was acted on.

Under the Cuban Assets Control Regulations, 501 applications for licenses were received (including applications reopened) during the fiscal year, and 445 applications were acted on. Comparable figures under the Foreign Funds Control Regulations were 110 applications received and 115 acted on. Under the Rhodesian Transaction Control Regulations, 36 applications were received and 36 acted on. Following the issuance of the new Rhodesian Sanctions Control Regulations, 650 applications were received and 628 acted on.

Certain broad categories of unexceptionable transactions are covered by general licenses set forth in the regulations, and such transactions

[1] See also exhibit 65, Treasury Order No. 128.

may be engaged in by interested parties without need for securing specific licenses.

The enforcement efforts of the Control have resulted in the referral of three cases to the Department of Justice during the fiscal year for criminal violations of the Regulations. Also, violations of the Foreign Assets Control Regulations led to the forfeiture to the United States, under applicable Customs laws, of merchandise totaling $30,000. In addition, merchandise tentatively valued at approximately $22,000 was seized and is expected to be forfeited after the completion of the necessary formal procedures. In other cases where forfeitures and civil penalties were mitigated as a result of extenuating circumstances, more than $75,000 was collected in lieu of forfeiture and civil penalties.

Internal Revenue Service [1]

The Internal Revenue Service administers the internal revenue laws embodied in the Internal Revenue Code (title 26 U.S.C.) and certain other statutes, including the Federal Alcohol Administration Act (27 U.S.C. 201–212), the Liquor Enforcement Act of 1936 (18 U.S.C. 1261, 1262, 3615), the Gun Control Act of 1968 (18 U.S.C. chapter 44), and Title VII of the Omnibus Crime Control and Safe Streets Act of 1968 (18 U.S.C. App. 1201–1203). It is the mission of the Service to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the integrity and efficiency of the Service.

Major management activities

Employment restrictions.—During 1969 the restriction imposed on employment by the Revenue and Expenditure Control Act of 1968 operated as an overriding restraint on accomplishment of Service programs. This act limited employment by prohibiting the filling of more than three of every four new vacancies occurring through attrition. This ratio was later cut to seven of ten. As a result the Service lost many employees whom it could not replace, and so was unable to perform all the work which had been identified for accomplishment in the 1969 appropriation request submitted to the Congress. The fact that these restrictions followed severely unbalancing expenditure cuts imposed in fiscal 1968 magnified the problem.

Priorities had to be set that would ensure the processing of tax returns—an uncontrollable volume of work—and at the same time allow other crucial programs to continue at reduced levels. In addition, streamlined methods of reporting and control with less detail and between higher levels of management, helped monitor the situation to ensure that vital operations would not be curtailed to the point where programs would become ineffective.

New accounting system.—The administrative accounting system was revamped during fiscal 1969 to incorporate accrual and cost information and to meet overall financial management and reporting needs. A few of the changes resulting from study of the financial and accounting systems to become fully implemented in fiscal 1970 are as follows:

(1) The 1970 operating financial plan or internal cost budget provides allocations of funds and manpower by program to major operat-

[1] Additional information will be found in the separate "Annual Report of the Commissioner of Internal Revenue."

ing levels. The accounts make readily available to each financial plan manager information on cost and fund allocations as well as the status of obligating authority.

(2) Plan managers now work from an operating financial plan which consolidates appropriated and reimbursable funds. Only the reimbursement program manager in the National Office is responsible for measuring the execution of the reimbursement plan. He coordinates all planning of reimbursable work and advises plan managers on the status of execution against amounts included in their plans. This procedure provides plan managers some relief and, at the same time, aids in the planning and control of reimbursable funds.

(3) The system provides accounting data on accruals and costs in the detail and at the levels required to support the Service's cost-based budget and to control the execution of the operating financial plan. The format of reports on plan execution which compare planned with actual man-year and dollar expenditures have been changed to allow a more meaningful managerial review. These reports furnish Service-wide data on program accomplishments and related costs and supply financial information required by the Bureau of the Budget.

Use of color in tax package.—In January 1969 more than 30 million taxpayers received Federal income tax packages printed in two colors of ink, in an effort to minimize taxpayer errors. Approximately 9 percent of all returns filed contain errors which in total are expensive to correct. The use of a strongly contrasting color, highlighting those areas having the greatest error factor, was intended to help the taxpayer. The significant words in those items appeared in red, with the remainder of the forms and instructions printed in blue. Approximately 25 million taxpayers received the red and blue forms, while another five million taxpayers serviced by the North-Atlantic Service Center received a different, shaded version. Overall taxpayer reaction to the colored forms was excellent.

Sampling indicated that the use of color reduced errors by 57 percent. This meant the prevention of millions of errors which otherwise would have cost the Government approximately $2 each to correct.

Informing and assisting taxpayers

To further strengthen the self-assessment system, the Service carries out a broad information program to communicate tax laws to taxpayers and apprise them of their rights and obligations in computing and reporting their tax liabilities. During the year a broad information program was conducted through the use of the various news media. In addition, taxpayer assistance teams staffed with tax experts were available in each district office to answer questions and provide tax materials. Regulations, rulings, simplified tax guides, and forms were issued to increase public knowledge and understanding of tax laws and procedural requirements.

Public information program.—The Service not only provides tax information to persons who ask for it, but reaches out to make information available to individuals who are unaware of tax law requirements.

The basic goal of the IRS public information program continued to be the prevention of errors on tax returns. Interwoven into virtually every message was the reminder that errors delay refunds, require time-consuming correspondence on the part of taxpayers, or require addi-

tional research by the Service. Messages pointed out that, for the Government, errors entail increased costs of operation which result in more expense to the public. The various means of communications included television, radio, news releases, magazine articles, speeches, slides, pamphlets, fact sheets, posters, displays and exhibits.

Through the Service's regional, district, and local offices, approximately 6,400 locally developed television and radio programs were carried on more than 700 television and 5,500 radio stations. During the tax filing season television spot announcements and slides, a 27-minute color film presentation, and a number of radio spots and program series were made available by the Service. All of these, as well as about 475 exhibits, concentrated on areas of most frequent taxpayer misunderstanding and uncertainty.

Taxpayer assistance program.—In fiscal 1969, for the fifth consecutive year, service to taxpayers reached new peaks as almost 29 million taxpayers either telephoned or visited Internal Revenue Service offices, an increase of over 2 million (7.7 percent) from 1968. Telephone inquiries increased by some 1.3 million, while 0.7 million more taxpayers came to Service offices. New highs were recorded for each of these categories: Telephone inquiries accounted for 64 percent of the total (18 million) and more than 10 million taxpayers visited Service offices.

During the fiscal year 1,350 specially selected and trained representatives helped meet the increased requests for taxpayer service. Of these, 843 provided full-time, year-round service in 352 taxpayer service locations. Additional service was provided on designated days by 57 visiting taxpayer service representatives at 141 service locations not staffed with full-time taxpayer service employees. During the income tax filing period, 450 temporary employees were used to provide taxpayer services.

Tax forms and form letters.—Much of the activity in the tax return forms area in fiscal 1969 resulted from the surtax rate and corporate estimated filing requirements of the Revenue and Expenditure Control Act of 1968. A number of new and revised forms also were required in the interest equalization tax area. Centralized review in the National Office of all forms issued by field offices was instituted. By June 30, 1969, a review of all existing National Office and field office forms was almost complete.

Most individual estimated income taxpayers were placed on a "voucher" system of filing in 1969. Under this new system, taxpayers submit each installment with a payment "voucher" that was furnished with the estimated tax form package. This innovation is expected to eliminate a major source of error and taxpayer complaints that characterized the former billing system.

Two short form returns were developed for the use of exempt organizations whose gross receipts for the year and total assets at the end of the year do not exceed $10,000. These forms reduced the reporting burden of these small organizations, while continuing to provide sufficient information for administrative and audit purposes.

Tax rulings.—The Service responds to written inquiries of individuals and organizations, whenever appropriate in the interest of sound tax administration, as to their status for tax purposes and as to the tax effects of their acts or transactions. A "ruling," which may

be issued only by the National Office, interprets and applies the tax laws to a specific set of facts. (A ruling, therefore, is distinguishable from a "determination letter," which may be issued by a district director only if the question is specifically covered by statute, regulation, or precedent published ruling.)

Letter rulings are requested by taxpayers or their authorized representatives. District directors also request technical advice from the National Office in connection with the examination or consideration of a taxypayer's return or claim for refund or credit. During the year 27,827 requests for letter rulings and 2,523 requests for technical advice were processed.

Regulations program.—Thirty-seven final regulations, one temporary regulation, and 29 notices of proposed rulemaking, relating to matters other than alcohol, tobacco, and firearms taxes, were published in the "Federal Register" during the year. Over 700 persons attended 13 public hearings on proposed regulations.

Personnel

Concentration of returns processing operations in seven service centers continued to present staffing problems. More than 90,000 employment applications were processed in hiring 14,000 seasonal card punch operators, clerks, and tax examiners needed to assist in processing the high volume of tax returns. Major recruitment efforts were required, since the labor market for clerical employees continued to be extremely competitive.

The Service continued to carry out the data processing conversion with minimum adverse impact on affected employees. The Southeast Region completed its phaseout of manual operations in fiscal 1968 and four more regions were scheduled to changeover by the beginning of fiscal 1970. The Service continued to exert all possible efforts to conclude redeployment with the same degree of success the program has enjoyed to date.

The Service continued its efforts to hire undergraduate accounting majors and to prepare them for careers as internal revenue agents and internal auditors. The program was structured for alternating periods of work assignments in Service offices and on-campus study. Although manpower ceiling restrictions curtailed full-scale participation by many offices, 175 students participated in the program. Seventy-one percent of the students who completed the program during calendar year 1968 became full-time Service employees.

Training

The middle-management course offered to newly appointed managers was completely redesigned. It presents contemporary management approaches and theories and explores current Service management problems and areas of emphasis. Key officials teach a substantial portion of the revised course. A collection of articles, "Readings in Management" was distributed to all Service managers, as was the new "Management Training and Development Handbook." The handbook for the first time systematizes and puts into perspective the wide variety of training and other activities involved in developing Service managers at all levels.

The basic training course for new revenue agents was revised during the year to include practical on-the-job training. The curriculum

provides initially for a few weeks of desk-side assistance to an experienced agent performing case audits followed by periods of classroom training and additional practical experience. The trainee is introduced to the whole job sooner than under the former curriculum and obtains a base of practical experience to help him get more out of related classroom sessions.

The Department of the Treasury's Training Center was activated at Hofstra University, on Long Island, to service the IRS North-Atlantic Region and the Customs Bureau.

Internal revenue collections and refunds

Gross collections.—Gross collections rose to an alltime high of $187.9 billion, the increase, $34.3 billion (22.3 percent) over fiscal 1968 was the largest ever recorded. More than 70 percent of total collections were processed through the Federal tax deposit system. Economic conditions, the income tax surcharge, and an increase in the rate of Federal Insurance Contributions Act taxes from 7.6 percent to 8.4 percent were major factors contributing to the record level.

Substantial gains were noted in virtually every class of tax. The largest increase occurred in individual income tax withheld at source (including FICA taxes) which totaled $103 billion in fiscal 1969, a gain of $17.5 billion or 21.3 percent over 1968.

In the fiscal year 1969 corporation income tax payments increased $8.5 billion or 26.7 percent over 1968, reaching a total of $38.4 billion. This total exceeded collections for 1967, previously the year of the highest corporation income tax receipts.

Excise tax collections reached $15.5 billion, an increase of $1.2 billion (8.5 percent) over the previous year. This was the first year that excise revenues had exceeded those of 1965. Collections since then had been affected by the Excise Tax Reduction Act of 1965, which repealed retailers excise taxes and either rescinded or scheduled for eventual elimination many other excise taxes.

Refunds.—This year 49.6 million refunds valued at $12.8 billion were issued through the ADP system at an accelerated rate. The number of refunds decreased by 4.5 percent from 1968. This decline was primarily attributed to the income tax surcharge, which increased the liability of many taxpayers who otherwise would have been entitled to refunds. Most taxpayers received their refunds within a 4 week to 6 week period.

The Revenue Expenditure and Control Act of 1968 provided that corporations could apply for adjustment (quick refunding) of estimated tax overpayments. Previously, refunding of estimated income taxes could not be accomplished until the income tax returns had been filed.

Receipt and processing of returns

Number of returns filed.—A substantial pattern of growth continued when more than 110 million tax returns of all types were filed in 1969, an increase of 3 million over last year. The number of forms 1040 and 1040A rose by nearly 2.3 million to 75 million, accounting for 68 percent of the total.

Automatic data processing.—The gradual implementation of the systems providing for direct filing of tax returns at service centers

continued to proceed on schedule. With the exception of a few low volume returns, direct filing became mandatory in 1968 for taxpayers in the Southeast Region. The program is expected to be completed in 1970 when it will become mandatory that all individual and major business returns be filed directly with service centers rather than with district offices.

Mathematical verification.—A principal benefit derived from the computer processing of returns for both taxpayers and the Government is the electronic verification of the taxpayers' arithmetic. Errors in addition, subtraction, and improper use of tax tables or schedules were common mistakes detected. The verification process resulted in adjusting liabilities upward by $315.1 million, and adjusting others downward by $140.2 million, for a net tax yield of $174.9 million. The program included a process for verifying the credits claimed by taxpayers for estimated tax payments. This resulted in a net yield for the Government of $213 million, in addition to the assessment of $43 million in statutory penalties for failure to make required estimated payments.

Enforcement activities

The Service expends a substantial portion of its resources on enforcement activities to insure that tax liabilities have been properly determined and paid. These major activities include auditing returns, securing delinquent returns, collecting delinquent accounts, investigating allegations of fraud, and enforcing the laws relating to alcohol and tobacco products and firearms. Computer technology has been a valuable tool in supplementing the human resources devoted to enforcement and the increased use of the ADP system has been an additional deterrent to delinquency and fraud.

Examination of returns.—Tax returns are audited either by internal revenue agents at the taxpayer's place of business (field audits) or by tax auditors who interview or correspond with taxpayers from offices of the Service (office audits). Income tax audits usually involve the larger and more complex returns and require the broad professional accounting skills of internal revenue agents. Less complex return audits are assigned to tax technicians. The continued shift of emphasis toward more interviews rather than correspondence audits largely accounts for the decline in the number of income tax office audits conducted in 1969. Although interview audits generally require more time to complete, the time invested is repaid in terms of effectiveness and improved communications with taxpayers.

During the year, 6.2 percent of total direct examination time was expended on estate and gift tax returns and 2.2 percent on excise tax examinations. Audit coverage in the employment tax area derives mainly from income tax audits. Internal revenue agents examining income tax returns of business taxpayers verify assessed liabilities for employment taxes.

Despite budgetary and personnel limitations, 2.5 million audits were completed, about 12.4 percent fewer than recorded for 1968. Additional tax and penalties recommended totaled $3 billion, 3.1 percent more than the total for the previous year.

For several years the Service has used computers to review income tax returns and identify those with high error probability. In fiscal

1969, the "discriminant function," a more sophisticated computer selection technique was introduced. This method is basically one of assigning numeric weights—negative as well as positive—to certain return characteristics. The weights, plus or minus, were determined according to the relative significance of the return characteristic as an indicator of error. A substantial number of individual income tax returns were selected for audit through this technique during fiscal 1969.

Collection of past-due accounts.—Almost 2.5 million past-due accounts were established in 1969, an increase of nearly 300,000 or 12 percent above last year. The amount of tax involved on past-due accounts established rose 36 percent from 1968 to $2.8 billion in 1969.

Considering personnel shortages brought about by the yearlong hiring restrictions, overall accomplishments were good. Over 2.3 million past-due accounts were closed in 1969. Although there were somewhat fewer closures in 1969, they accounted for $2.4 billion, almost $400 million more than in 1968.

The Service was not able to dispose of as many accounts as were established, which caused an increase in the yearend inventory for the first time since 1965. The 1969 ending inventory of 778,000 accounts was approximately 170,000 or 28 percent above the 1968 level of 608,000 accounts, but was only some 30,000 above the 1966 and 1967 levels. The value of the 1969 inventory totaled $1,786 million, $407 million higher than last year.

Delinquent returns.—Low past-due account inventories at the beginning of the year permitted the deployment of additional enforcement personnel to delinquent returns activity for an extended period. The Service secured delinquent returns valued at $309.1 million in tax, interest, and penalties during the year. Of 740,000 returns assessed, $253 million was secured through the delinquent returns program. The remainder was secured as a byproduct of auditing returns.

Summary of additional taxes from direct enforcement.—A detailed comparison of additional tax assessments resulting from direct enforcement during the last 2 fiscal years is presented below.

Sources	In thousands of dollars	
	1968	1969
Additional tax, interest, and penalties resulting from examination	2,208,151	2,383,068
Increases in individual income tax resulting from mathematical verification	266,763	315,103
Increases in individual income tax and penalties resulting from verification of estimated tax payments claimed	r 485,829	361,092
Tax, interest, and penalties on delinquent returns	293,143	309,075
Total additional tax, interest, and penalties	r 3,253,886	3,368,338
Claims disallowed	r 362,830	286,962

r Revised.

Tax fraud investigations, indictments, and convictions.—A total of 8,273 fraud investigations were completed during the year, with prosecution recommended in 1,139 cases. More than 117,000 allegations of fraud were screened and evaluated in selecting the investigative caseload.

Indictments were returned against 649 defendants in tax fraud cases in fiscal 1969. Pleas of guilty or *nolo contendere* were entered for 470

defendants in cases reaching the courts, 91 defendants were convicted after trial, 20 were acquitted, while cases against 244 were nol-prossed or dismissed including 163 defendants in wagering tax cases.

Strike forces active.—The Departments of Justice, Treasury, Labor, Post Office, and the Securities and Exchange Commission have instituted a new concept in law enforcement known as "The Strike Force," with the objective of pooling the resources of various Federal law enforcement agencies and through their combined efforts, to concentrate and strike out against underworld elements in the major cities. The Service was participating in the strike forces operating in Buffalo, Detroit, Philadelphia, Newark, Miami, Chicago, Brooklyn, and New York City at the fiscal yearend.

Alcohol and tobacco tax administration.—The Service's expanded responsibilities relating to firearms necessitated redeployment of investigative manpower to implement the Gun Control Act of 1968 and the firearms provisions of the Omnibus Crime Control and Safe Streets Act of 1968. This reprograming of resources resulted in a 30 percent reduction from 1968 in the manpower expended on illicit liquor investigations, and was a major factor contributing to the 26 percent decrease (from 4,136 in 1968 to 3,063 in 1969) in seizures of illicit distilleries.

Although the main thrust of the Service's liquor law enforcement program continued to be centered in the Southeastern States, where 90 percent of all illicit distillery seizures were made in 1969, the concentrated emphasis on Operation Dry-Up could not be maintained.

In the first 5 years of Operation Dry-Up more than $27 million in additional revenue was collected resulting from shifts in the consumption of alcoholic beverages to legal markets. The following table provides information on nationwide seizures and arrests during the last 6 fiscal years.

Fiscal year	Number of stills seized	Gallons of mash seized	Arrests for liquor law violations
1964	6, 837	3, 123, 800	7, 897
1965	7, 432	3, 637, 900	7, 171
1966	7, 685	3, 664, 900	6, 629
1967	6, 608	3, 125, 400	6, 148
1968	5, 899	2, 697, 300	4, 884
1969	4, 362	1, 965, 000	4, 116

Samples of illicit spirits analyzed in the National and regional laboratories dropped to 3,844 in fiscal 1969 from last year's 8,120. Narcotic samples decreased to 7,315 from an alltime high of 11,500 in 1968. These changes reflect, in part, the shift of investigative time from liquor law enforcement to the critical firearms area, and the transfer of work to the Bureau of Narcotics and Dangerous Drugs laboratories. Physical evidence samples and materials examined in connection with criminal cases rose to 2,758, an increase of 558 from 1968. The greatly expanded capabilities of the photographic laboratory has resulted in the annual production of more than 14,000 color and black and white photographs of physical evidence, and art objects.

Firearms law enforcement.—Personnel assigned to firearms enforcement was increased 292 during the year. Investigations conducted in

1969 resulted in the completion of 1,595 criminal cases, the arrest of 715 violators, and the seizure of 4,152 firearms. These figures compare with 919 criminal cases, the arrest of 449 violators, and the seizure of 1,092 firearms in 1968.

The Gun Control Act of 1968 placed responsibility on the Service for implementing the act's importation provisions. The volume of applications for permits to import firearms and ammunition far exceeded the Service's original estimates. From October 1968 through June 1969, 19,074 permits were issued to import sporting firearms. During this same period 270,775 sporting firearms were imported, and 1,428 applications were disapproved covering imports totaling 595,901 firearms which did not meet the importation criteria.

Appeals and civil litigation.—In fiscal 1969, 33,103 case receipts were received in appellate offices. Total case disposals were 32,340, while the June 30, 1969, case inventory was 32,027.

Civil cases in the trial courts won or partially won by the Government during fiscal 1969 follow: In the Tax Court, 431; in the Court of Claims, 36; and in U.S. district courts, 252. The Government won, in whole or part, 283 of the 349 civil tax cases decided by courts of appeal (exclusive of general litigation and alcohol, tobacco, and firearms legal matters).

The Supreme Court rendered two decisions in Tax Court cases during the year. The Court decided one for the Government and one in part for the Government. The Supreme Court rendered four decisions in tax refund suits, sustaining the Government's position in each case.

International activities

Activities of the Service in the international theater embrace three major programs: (1) Administration of the tax laws as they apply to U.S. citizens living abroad, nonresident aliens, and foreign corporations; (2) negotiation and administration of tax conventions with foreign countries established to prevent double taxation of individuals and corporations subject to taxation by two or more countries; and (3) providing assistance requested by developing countries in upgrading and improving their tax administration systems.

International operations.—The Service maintains foreign posts in Bonn, London, Manila, Mexico City, Ottawa, Paris, Rome, Sao Paulo, and Tokyo.

The functions of the foreign posts include district type activities such as audit, collection, informal conference, and collateral assistance. Compliance is promoted by assisting U.S. taxpayers and U.S. business firms and organizations abroad. Offices in Chief Counsel of IRS, Department of Justice, and other parts of Treasury frequently are assisted by officers of the foreign posts on tax matters involving foreign areas. The duties of IRS overseas officers are extended to include such activities as locating and interviewing witnesses, assisting with depositions, serving summonses, arranging contacts, and giving guidance on tax matters to Government officials who travel abroad.

Income tax treaty administration matters are among the important functions of the foreign posts. Service representatives assist with settlement of international tax disputes, maintain close liaison with foreign tax officials, handle informally matters that otherwise might

become complex, and serve as advocates of U.S. citizens and business firms when foreign taxation contrary to treaty provisions is proposed.

Tax conventions.—The Service participated in negotiations with eight countries concerning bilateral income tax conventions and with three countries concerning bilateral estate tax conventions. In 10 cases the negotiations took place outside the United States. Instruments of ratification of an income tax convention between France and the United States were exchanged on July 11, 1968.

Foreign tax assistance.—For the past 6 years the Internal Revenue Service, through the foreign tax assistance program, has provided technical assistance to developing countries of the free world at their request. This program is a joint effort with the Agency for International Development (AID), in which AID provides the funds and the overall development policy, and the Service provides the technical program, direction, and staffing. International and private organizations which have formulated programs for tax reform in developing countries are continually consulted to insure consistency and to prevent duplication in programs. Among those consulted are the Organization of American States, the Inter-American Development Bank, the International Monetary Fund, the United Nations, and Harvard University.

The Inter-American Center of Tax Administrators (CIAT), a regional self-help institution composed of the principal tax administrators of Western Hemisphere countries, held its Third Annual General Assembly in Mexico City in May 1969. Fifty-nine delegates from member countries participated in various aspects of planning for tax administration, together with over 50 observers from international organizations and other countries within and without the hemisphere. Canada became a member during the year, increasing the number of countries represented to 21.

The other major element of the program continued to be the orientation and training of foreign tax officials. Supervisory and managerial training, in major foreign languages, was provided in the United States, while technical training was performed in the host countries. This year 219 participants from 58 countries were trained in the United States.

Planning activities

Every aspect of tax administration is subject to planning activities. The workload of the Service continued to grow during fiscal 1969 necessitating advanced planning to maintain high effectiveness in collecting the majority of taxes without direct enforcement.

Long-range planning.—As an integral part of the planning-programing-budgeting system (PPBS) the Service continued to conduct several in-depth analyses of significant Service programs to facilitate the selection of alternative courses of management action. Among the most significant of these are:

1. A special study of the total "Taxpayer Assistance and Services" program to reexamine the overall objectives in areas of rulings and interpretations, forms and publications, printing and distribution of tax forms, taxpayer assistance and related services, and taxpayer education and public information.

2. A complete review to reevaluate the role of office audit in accomplishing the overall Service mission of maximizing voluntary compliance with the internal revenue laws.

3. A study which is to result in a developmental effort aimed at designing and implementing a data processing system to provide the capabilities required by tax administration in the 1970's.

Two major program issues were designated by the Budget Bureau for PPB studies. A study of the "Level of IRS Audit Coverage" was completed. A long-range study of Service organization, intended to produce a plan of organization best suited to the tax administration job of the next decade was initiated.

Service workload.—Between the calendar years 1960 and 1969 the number of individual returns rose 24 percent and corporation returns 57 percent. The more complex individual returns, those with incomes over $10,000, increased from 4.7 million in 1960 to 19.1 million in 1969 (306 percent) and are expected to increase to 44.9 million by 1980.

Current research program.—Research activities continued to be directed toward advancing the overall administration of the tax laws. Research projects were initiated in fiscal 1969 to assist the Department of the Treasury in formulating its legislative program. These included: The periodic updating of appraisals of the impact of tax reform proposals on the Service's costs and resources; the designing of optional sets of tax tables to implement the various tax rates proposed; and the reviewing of administrative implications inherent in changes in legislative proposals, as they evolved in the legislative process.

Surveys continued to be conducted to measure the extent of taxpayer compliance in reporting specific types of income. Research studies were designed to effect procedural improvements having a broad application to the administration of the tax laws. An objective of all research activities was the simplification of procedures, forms, and instructions to facilitate the taxpayers task of complying with the tax laws.

The research program also included a review of the present filing due dates for tax and information returns, to determine whether changes would assist the taxpayers and the Service. At the fiscal year-end a study was underway to determine the most effective use of computerization methods to assess penalties for failure to comply with requirements for timeliness and adequacy of tax deposits for employment, excise, and estimated income taxes.

Systems development.—Emphasis in systems development was placed on the first production installation of the direct data entry system delivered to the Southwest Service Center in July 1968. This was successfully used in the processing of 1968 tax returns filed in 1969. The new system makes it possible to enter data from tax returns directly into a general purpose computer, which provides automatic verification of most information and makes corrections "on-line." Since actual achievements in full-scale production validated earlier estimates of productivity increases, it was decided to install additional production systems at three more service centers for the processing of 1969 tax returns to be filed in 1970.

Tax models in 1969.—During fiscal 1969, the Service expanded the uses of the "Tax Models." Originally developed 6 years ago to meet

the Treasury's need for timely estimates of the revenue effect of proposed tax legislation, these models have proved to be valuable planning and economic tools.

Each tax model consists of a magnetic tape file containing a randomly selected sample of taxpayer records and computer programs capable of manipulating these records so that tax (or other returns items) can be determined under prescribed conditions. The models are capable of measuring the effect of simultaneous changes on each tax record and projecting the results to all taxpayers. The 1966 models for individuals and corporations were recently used to evaluate various tax reform proposals including repeal of the investment credit, a minimum income tax, and new individual income tax return filing requirements.

Inspection activities

The success of the tax system depends upon the public's faith in the objectivity and the integrity of the Internal Revenue Service, as the impartial administrator of Federal tax laws. To ensure that this faith is not violated the Service conducts continuing inspections into questions of integrity and the adequacy and effectiveness of operations. All Service activities and functions are subject to internal audit, as an integral part of the Service's management control system. Major emphasis is placed on activities most closely related to collection of tax and enforcement of the tax laws. Internal security for the Service is accomplished by conducting background investigations on applicants and by investigating complaints or allegations of misconduct or irregularities concerning Service employees. Investigations of persons outside the Service are made when their actions allegedly constitute an effort to corrupt Service personnel through bribery or other means.

During fiscal 1969, 8,950 investigations were completed compared to 12,081 last year, this decrease of 3,131 cases completed was a result of curtailment in hiring due to budgetary restrictions. Police record checks were made on 3,137 individuals considered for short term temporary appointments and on 1,787 persons hired in connection with economic and education opportunity programs.

The Service also conducts investigations relating to background of certain applicants for enrollment to practice before the Internal Revenue Service; charges against tax practitioners; and accidents involving Service employees or property. Special investigations or studies requested by the Commissioner, the Secretary of the Treasury, or other officials of the Department of the Treasury are also part of the Service's internal security responsibilities.

Investigation was continued in the case of 26 employees and former employees and one accountant, all of whom were arrested in January 1968 on charges of attempting to bribe an internal security inspector. Twelve additional arrests were made in fiscal 1969. These bribes were to obtain information contained in inspection files or to circumvent investigations relating to corrupt activities. Durng the year five persons pleaded guilty, one person died, and the grand jury returned a no true bill on one of the subjects; at the fiscal yearend 20 were awaiting trial and 11 were pending grand jury action. Tax examinations initiated in connection with this investigation have resulted in deficiencies well in excess of $1 million. At the end of fiscal 1968 investigation was con-

tinuing and it was anticipated that the total tax deficiencies involved would amount to over $2 million.

Bureau of the Mint [1]

The major functions of the Bureau of the Mint are the manufacture of coins of the United States and their distribution to the Federal Reserve banks and branches. Other functions involve the safeguarding, processing, and movement of gold and silver bullion for the Treasury; the manufacture of medals of a national character; the production and sale of proof coins and uncirculated coin sets; and, as scheduling permits, the manufacture of foreign coins and dies on a reimbursable basis.

The Headquarters for the Bureau of the Mint is located in Washington, D.C. The operations involved in carrying on the business of the Mint are performed in the several field offices. Mints are located in Philadelphia, Pa., and Denver, Colo.; assay offices are in New York, N.Y., and San Francisco, Calif.; [2] bullion depositories are in Fort Knox, Ky. (for gold) and in West Point, N.Y. (for silver). The silver depository at West Point is an adjunct of the New York Assay Office.

Operations of the Bureau of the Mint, fiscal years 1968 and 1969

Selected items	Fiscal year	
	1968	1969
Coins manufactured (millions of pieces):		
Domestic regular issue	5,862.6	7,018.1
Domestic special coins	[1] 12.2	[2] 17.3
Foreign coins	249.0	247.4
Total	6,123.8	7,282.8
Newly minted coins issued (millions of pieces): [3]		
1-cent piece	3,746.1	5,344.7
5-cent piece	143.5	318.8
Dimes	3,808.1	1,170.0
Quarter dollars	2,136.6	337.9
Half dollars	307.3	100.0
Total	10,141.6	7,271.4
Domestic coinage dies manufactured	37,378	53,498
Foreign coinage dies manufactured	5,489	4,423
Medals and distinguishing devices manufactured	49,053	315,555
Uncurrent U.S. coin received from circulation, pieces	5,246,559	10,376,993
Total assay determinations made	189,078	181,115
Electrolytic refinery production-gold, fine ounces	2,638,951	1,753,192
Electrolytic refinery production-silver, fine ounces	2,888,861	2,855,030
Balance of gold bullion in Mint at yearend, fine ounces	278,104,903	283,890,122
Balance of silver bullion in Mint at yearend, fine ounces	76,836,413	97,404,185

[1] 6.4 million pieces in proof sets; 5.8 million pieces in special mint sets.
[2] Proof coins.
[3] Excludes proof coins.

Domestic coinage

During fiscal 1969 the three coinage facilities processed approximately 25,390 short tons of coinage metal into 7.0 billion finished coins with a face value of nearly $303 million dollars. These amounts include 1,769,436 proof coin sets dated 1968, and 1,699,508 proof coin sets dated

[1] Additional information is contained in the separate "Annual Report of the Director of the Mint."
[2] The San Francisco Assay Office also operates as a Mint.

1969, consisting of 17,344,720 individual coins with a face value of $3,156,739.04.

Proof coin production continued at the San Francisco Assay Office with all coins bearing the "S" mint mark. The Bureau of the Mint began accepting orders for the 1969 proof coin sets November 1, 1968, and by November 6, 1968, orders had been received to fill the planned production of approximately 3 million sets.

The production by denomination of the fiscal 1969 total varies greatly from that of the past 3 years due to current requirements of the economy. The 1-cent coins which continued as the most largely produced, accounted for 76 percent of the total production in fiscal 1969, increasing from 64 percent in 1968, 40 percent in 1967, and 32 percent in 1966. The 1-cent production of more than 5.348 billion pieces is the greatest single year production for this denomination in mint history, and eclipses the previous high in 1968 by over 42 percent. Quarters, on the other hand, continued to decrease from 13 percent of total production in 1968, to 5 percent in 1969. The remainder of the 1969 production was as follows: dimes, 15 percent; 5-cent pieces, 3 percent; and half dollars, 1 percent.

All subsidiary coin (dimes, quarters, and halves) were of the composite type authorized by the Coinage Act of 1965 (31 U.S.C. 391). The composite coins consist of three layers of material. For dimes and quarters the metallic composition of the outer layers is an alloy of 75 percent copper and 25 percent nickel, bonded to an inner core of pure copper. The composite half dollar has outer layers of 80 percent silver and 20 percent copper, bonded to an inner core of approximately 20 percent silver and 80 percent copper, giving the coin an overall silver content of 40 percent. Cents were made from bronze with a 95 percent copper–5 percent zinc composition. Nickels were made from a 75 percent copper–25 percent nickel alloy.

The Bureau of the Mint delivered 7.272 billion new coins to the Federal Reserve banks and branches in fiscal 1969. In addition, over 262 million clad quarters and 288 million clad dimes were returned to the Federal Reserve banks and branches for redistribution after they had been separated from the mixed silver and clad coins.

Foreign coinage

Foreign coinage production of 247 million pieces during fiscal 1969 continued at a rate nearly equal to fiscal 1968 (249 million pieces). During fiscal 1969 the mint produced coins for Canada, Costa Rica, El Salvador, Israel, Liberia, Panama, and the Philippines. For Canada, 85.2 million 10-cent pieces of pure nickel were made. Two coins of a 75 percent copper–25 percent nickel composition, the 1 colon and the 50 centimos, were produced for Costa Rica in quantities of 2 million each. For El Salvador, the mint furnished 5 million 1 centavo of a 95 percent copper–5 percent zinc composition, and 3 million 10 centavos of a 75 percent copper–25 percent nickel alloy.

The mint made 60,000 commemorative peace coins for Israel, 20,000 of which were proof. The composition of the peace coins was 90 percent silver–10 percent copper. For the Government of Liberia, the mint produced 1.6 million 25 cent coins of a 75 percent copper–25 percent nickel composition; and 14,396 Liberian proof sets containing

one each of the following denominations: 1 dollar; 50 cents; 25 cents; 10 cents; 5 cents; and, 1 cent.

For the Government of Panama, the mint manufactured the following coins for general circulation: 25 million 1 centesimo which were bronze of a 95 percent copper–5 percent zinc composition; 6 million 5 centesimos of a 75 percent copper–25 percent nickel alloy; 5 million $\frac{1}{10}$ balboa and 1.20 million $\frac{1}{4}$ balboa, each of 75 percent copper–25 percent nickel layers clad onto a core of pure copper; and 1 million $\frac{1}{2}$ balboa which were silver clad, averaging 40 percent silver–60 percent copper. Also produced by the mint for the Government of Panama were 23,210 Panamanian proof sets containing one each of the following denominations: 1 balboa; $\frac{1}{2}$ balboa; $\frac{1}{4}$ balboa; $\frac{1}{10}$ balboa; 5 centesimos; and 1 centesimo.

For the Philippine Government during fiscal 1969, the mint furnished 40 million 1 sentimos of 95 percent aluminium–5 percent magnesium; 50 million 5 sentimos which were 60 percent copper–40 percent zinc; 10 million 10 sentimos and 10 million 25 sentimos which were 70 percent copper, 18 percent zinc, and 12 percent nickel; and 100,000 one peso coins 90 percent silver–10 percent copper.

In addition to the finished coins which were produced for foreign governments in fiscal 1969, the Bureau of the Mint manufactured two sizes of coinage blanks for the Government of Brazil of a 75 percent copper–25 percent nickel alloy. The blanks were 23 mm. and 25 mm. in diameter, for the 10-centavo and 20-centavo coin, respectively. Deliveries of these blanks during the fiscal year amounted to 55.2 million ounces which was approximately 126.6 million pieces of the 10-centavo size and 129.8 million pieces of the 20-centavo size.

Silver activities

In connection with the Treasury's program to make silver bullion available for industrial use, the Bureau of the Mint recovered 131.0 million fine ounces of silver from the melting of $89.8 million of silver quarters and $93.0 million of silver dimes which had been separated from inventories of coins not recirculated by the Federal Reserve System. At the end of fiscal 1969 the Bureau of the Mint had in its inventories circulated coins estimated to contain silver coins equivalent to 58.5 million fine ounces of silver. In addition, the Federal Reserve banks and branches had in their inventories circulated coins estimated to contain silver coins equivalent to 6.1 million fine ounces of silver. These inventories were the result of a program initiated in fiscal 1968, for recovering the silver from silver coin. This remaining silver will be recovered during fiscal 1970 and early 1971 as the silver coins are separated from the clad coins and are melted.

In accordance with amendments to the silver regulations dated September 21, 1967, the handling of sales of Treasury silver for industrial use was transferred to the General Services Administration.[1] Approximately 99 million fine troy ounces were contracted for sale during fiscal 1969. Most of the silver made available was from the silver coin melting program. The preparation of bars, storage, and processing for delivery of this silver was accomplished by the Bureau of the Mint.

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[1] See 1968 annual report, page 466.

Management improvement program

The Bureau of the Mint continued its active management improvement and cost reduction program during fiscal 1969 under the direction of management and operating officials in the Office of the Director, and in each of the mints and assay offices. Major efforts of these officials were directed toward achieving efficient maximum production of domestic coins and it has been largely through their efforts that this has been accomplished for the past several years.

Savings of $781,000 were realized during fiscal 1969 under the program. These were attributed to further improvements in technology and operating procedures and continuing programs for developing personnel in management and other skills.

New Philadelphia Mint

Ceremonies for the cornerstone laying of the new mint at Philadelphia were held on September 18, 1968. Before June 30, 1969, the structure was essentially complete and initial tests had been made of all new melting and rolling equipment. Conventional coining equipment from the old mint was being relocated in the new building at the fiscal yearend.[1]

U.S. Savings Bonds Division

The U.S. Savings Bonds Division promotes the sale and retention of U.S. savings bonds and U.S. savings notes ("Freedom Shares," first issued in May 1967) and the sale of savings stamps. The systematic buying and continued holding of these securities makes an important contribution to the Government's efforts to finance our national debt in a noninflationary manner and broadens the ownership of the Federal debt.

The program is carried out by a relatively small Government staff assisted by a large corps of sales promotion volunteers. Liaison is maintained with all types of financial, business, labor, agricultural, and educational institutions, and with community groups of all kinds. Their volunteer services are enlisted to sell savings bonds through banks, savings and loan associations, credit unions, certain post offices, and thousands of business establishments and other employers operating payroll savings plans.

Sales of series E and H savings bonds and savings notes totaled $4,876 million in the fiscal year 1969.

Promotional activities

Continued progress was made during fiscal 1969 in promoting the payroll savings plan among industrial employees; Federal, State, and local Government employees; and the military services. Over 2,308,000 persons were enrolled during the year and participants in the payroll savings program as of June 30, 1969, totaled more than 10,000,000.

Mr. James M. Roche, chairman of the board, General Motors Corp., directs the 1969 payroll savings campaign in industry, which was formally launched with the annual meeting of the Payroll Savings Committee in Washington on January 8, 1969. As Chairman, he heads the Committee composed of the six former Chairmen and top execu-

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[1] The official opening of the new mint was held on Aug. 14, 1969. Details will be included in the annual report for fiscal 1970.

tives representing 23 key business centers and 28 major industries. Mr. Roche addressed the campaign kickoff meetings of top executives in Detroit and in 13 other cities. He provided for a savings bond float in the Inaugural Parade, a sound motion picture, "Challenge of Leadership," and a sales brochure for use in selling top executives on the program. He also sponsored advertising in the "Wall Street Journal" and the "Journal of Commerce." The successful campaign in General Motors which increased participation from 61 percent to 90 percent among its almost 600,000 employees underlined Mr. Roche's involvement in the payroll savings program.

The Executive Committee of State Chairmen of the Savings Bonds Division met with officials at the Treasury on March 13. On March 14, approximately 400 volunteers from industry, banking, national organizations, and the Federal Government attended a conference in Washington, D.C. In addition to Treasury officials,[1] speakers included Mr. Roche and Mr. Robert P. Mayo, Director of the Bureau of the Budget.

Under the direction of Interdepartmental Chairman Robert H. Finch, Secretary of Health, Education, and Welfare, and Vice Chairman Maurice H. Stans, Secretary of Commerce, a successful spring campaign was conducted among both civilian and military personnel in the Federal Government. Appearances by Hollywood celebrities marked the opening ceremonies in Washington and at a Pentagon rally. During the spring campaign, approximately 112,000 civilian employees and 84,000 additional members of the Armed Forces signed new bond allotments. Sixty-one thousand employees increased their allotments. Total enrollment, civilian and military, exceeded 3,540,000 on June 30, 1969. For the third consecutive year, sales to Federal personnel exceeded $1 billion.

The 11th Mrs. United States Savings Bonds, Joy Berlemann of Las Cruces, N.M., was featured on the special Inauguration Day and Orange Bowl parade floats. To promote the sale of savings bonds, she toured 17 States and visited military installations in four foreign countries.

Forty-eight national organizations with a combined membership of 49,000,000 gave editorial and advertising support in their national publications, showed films, and encouraged their local units to devote at least one club program to savings bonds.

The school program utilized colorful new materials to tie in with a film, "The Story of Old Glory," and wallet cards, posters, and certificates for students exchanging stamp albums for savings bonds were widely distributed. Almost 5 million pupils were exposed to the program in fiscal 1969, resulting in the purchase of 111,338,000 savings stamps valued at nearly $19 million.

Directed by the National Labor Committee for Savings Bonds, organized labor continued their unqualified support and endorsement for the savings bonds program. A strong policy statement urging that the payroll savings plan be made available to all wage earners was adopted by the AFL–CIO Executive Council.

Over 13,000 banks distributed 37 million savings bonds leaflets to their customers. Banks also sponsored newspaper advertising, fur-

[1] See exhibit 26.

nished volunteers for local campaigns, and served as host to hundreds of volunteer meetings.

A National Panel on Public Relations for Savings Bonds, headed by James T. Coleman, Director of Public Relations for Tupperware, was established in fiscal 1969 to provide guidance and advice on specific public relations problems. Another new volunteer group, the 47-member National Committee of Newspaper Publishers, headed by Eugene C. Pulliam, president, Indianapolis and Phoenix Newspaper, Inc., was initiated to act in a consulting capacity to the Secretary of the Treasury and the Savings Bonds Division and to stimulate and maintain editorial emphasis on savings bonds, especially in chain newspapers.

The Advertising Council and its task force advertising agencies continued to give outstanding support to the bond program during fiscal 1969. The estimated dollar value of advertising contributed by newspapers, magazines, radio, television, outdoor, and transit companies was nearly $60 million. Daily newspapers carried 20,154 ads and magazines carried 138,820 lines.

Famous TV and motion picture stars appeared in person for the program as well as in theatrical and television film messages. The motion picture industry donated an outstanding savings bonds short subject, "Rowan and Martin at the Movies," which had played in more than 5,000 theatres by the end of the fiscal year.

Management improvement

One of the most significant improvements in the administrative management of the Division became effective September 29, 1968, when all of the Division's field promotional positions were converted from the excepted category into the competitive civil service. This action opened the door to an entirely new approach to personnel management which will permit the more effective utilization of the Division's human resources.

As a result of a study by a team from the Office of the Assistant Secretary for Administration, the Division has undertaken exploratory work in realining districts and areas to permit the crossing of State boundaries by some representatives, when this clearly contributes to better management and coverage of territory. At the end of fiscal 1969, nine such territories had been established.

Because of rising costs of printed and other promotional materials and services the Division reluctantly abandoned an 8-year-old program of direct mail bank letters indorsing the savings bonds program. During the year some 25 million to 30 million personal bank letters were mailed from bank presidents to bank depositors at no postage cost to the Government. Total cost of the promotion amounted to $92,000 annually. Savings for the segment of fiscal year 1969 affected through cancellation of this program, amounted to $40,000. Funds saved were used to procure essential printed and promotional services that otherwise would not have been possible to acquire.

U.S. Secret Service

The major responsibilities of the U.S. Secret Service defined by section 3056, title 18, United States Code, are to protect the President of the United States, the members of his immediate family, the Presi-

dent-elect, the Vice President or other officer next in the order of succession to the office of President, and the Vice-President-elect; to protect the person of a former President and his wife during his lifetime, the person of the widow of a former President until her death or remarriage, and minor children of a former President until they reach 16 years of age, unless such protection is declined; to protect persons who are determined from time to time by the Secretary of the Treasury, after consultation with the advisory committee, as being major presidential or vice presidential candidates, unless such protection is declined; the detection and arrest of persons committing any offenses against the laws of the United States relating to coins, obligations, and securities of the United States and of foreign governments; and the detection and arrest of persons violating certain laws relating to the Federal Deposit Insurance Corporation, Federal land banks, and Federal land bank associations.

Management improvement

Secret Service headquarters installed a 24-hour communications center and locator service to insure prompt access to headquarters personnel by the public and others having business with the Service. The 24-hour telephone answering service capability has also been implemented in 18 field offices.

Teletype communications to 15 field offices from headquarters were operational by the fiscal yearend. This system is connected with the National Crime Information Center (NCIC) and with the Law Enforcement Teletype System (LETS). The system provides the rapid and accurate interchange of printed material necessary to accomplish the Service's law enforcement and protective duties.

A secure voice facility was added for the transmission of classified telephone calls between the State Department, CIA, the Department of Defense, The White House, and the Secret Service.

The Counterfeit Note Index, containing data used in identifying counterfeit notes in circulation, was being prepared by the Service at the end of fiscal 1969.

All protective intelligence case files were computerized for rapid accessibility.

A study of the several manual systems used by the Service to assemble and maintain key information on employees, indicated that a more sophisticated approach with expanded capability, for total personnel management, consistent with the Service's specific requirements was necessary. As a result, an automated personnel information system was developed, which is expected to be fully operational in January 1970.

The objective of the system is to provide top management with immediate access to any information required for personnel decisions.

During the latter half of the year, system specifications were developed for an automated criminal name index to identify all data on persons arrested by the Service. Beginning on July 1, 1969, the pertinent information received from field offices is to be verified, and forwarded for entry into the computer system.

The automation of the names of intelligence subjects provides another step toward the total automation of all names of interest to the Secret Service.

Personnel

During the fiscal year 1969 the Secret Service increased its total permanent personnel strength by 121, including 80 special agents.

Training

During fiscal 1969, the Service continued to emphasize supervisory and management development. All White House Police Force personnel with the rank of sergeant and higher completed at least a basic supervisory development course. Several employees attended various Civil Service Commission sponsored courses on budgeting and finance. Two officials attended the Commission's 2-week planning-programing-budgeting system course, and two others studied at the new Federal Executive Seminar Center at Charlottesville, Va.

The Secret Service took over operation of the Indoor Firing Range in the Main Treasury Building from the U.S. Coast Guard in June 1969. In preparation for this, those who would be teaching at the range attended an Instructor Training Course.

During fiscal 1969, the Service trained law enforcement officers from the North Carolina State Bureau of Investigations and the Royal Canadian Mounted Police in protection techniques. It also trained five members of the Baltimore Police Department in ninhydrin processing and members of other law enforcement agencies in questioned documents.

Training programs within the Secret Service for personnel engaged in investigative and protective functions involved 28,976 man-hours. In addition, 5,688 man-hours of interagency training and 10,343 man-hours of nongovernment training were completed. This made a total of 45,007 man-hours of training completed by the Service during fiscal year 1969.

Inspection and audit program

Improvements were made in procedures, evaluation techniques, and reporting in connection with the inspection and audit program during fiscal 1969. New protective responsibilities were assigned in connection with the program. Personnel also served as special representatives of the Director in the development of special high-level projects.

Protective responsibilities

The protection of the First Family, Vice President, former Presidents and their wives, the widow of a former President until her death or remarriage, major presidential and vice presidential candidates, and the minor children of the late President John F. Kennedy continued to be the primary responsibility of the Secret Service.

Investigative responsibilities

Fiscal 1969 was one of the Secret Service's most eventful years in the investigation of counterfeit U.S. currency. Seizures of counterfeit money reached an alltime high of over $12 million and 1,394 individuals were arrested for counterfeiting violations. In addition, a number of counterfeiting operations were stopped before any notes were produced.

The amount of counterfeit money passed on the public reached approximately $2.9 million. Although the dollar amount increased 4 percent over fiscal 1968, the number of counterfeit notes passed decreased 1 percent from 1968.

These percentages are quite significant when compared to a 17 percent rise in serious crimes recorded during calendar year 1968. Even more significant is the fact that during the last few months of fiscal year 1969, there was a considerable decrease in the amount of counterfeit money being passed to the public.

The decrease in counterfeit activity during this period was due to intensive enforcement efforts—with a heavy concentration on the major counterfeiting operations—and not to any cyclical trend. Ten major operations were eliminated during fiscal year 1969.

The following summaries illustrate the type and scope of counterfeiting activities during fiscal 1969.

In July 1968, an undercover Secret Service agent rendezvoused at a suburban Cleveland bar with a local criminal who had played a major role in almost every counterfeiting operation in that area during the past 20 years.

This individual offered to sell a large quantity of counterfeit $100 notes to the agent, who posed as an attorney with access to several hundred thousand dollars in the safe deposit box of a client. The "attorney" said that he planned to replace his client's funds with the counterfeit currency. It was agreed that the "attorney" would receive an initial delivery of $300,000 in counterfeit notes and a later delivery of $900,000.

Agents observed the suspect and a Cleveland associate arrive at the Miami International Airport on July 26, 1968. The two, who were met by a member of the Miami underworld, proceeded to a motel where the undercover agent was staying. At the motel, the suspects displayed samples of their counterfeit to the "attorney" and he assured them that he had the funds to complete the transaction. The counterfeiters were arrested 4 hours later when they returned to deliver the $300,000 in counterfeits.

While free on bond, the two Cleveland defendants hired a Cleveland printer who produced new counterfeits which were later passed in large numbers in the Pittsburgh–Youngstown–Cleveland area. Through an informant, an undercover agent was introduced to four distributors of these notes. Subsequently, in March 1969, these distributors were arrested at the Cleveland airport while delivering $500,000 of the new counterfeits.

In June 1969 the printer was arrested and the original Cleveland defendants rearrested. They were awaiting trial on the new charges at the fiscal yearend.[1]

During August 1968, the Secret Service office in Los Angeles was contacted by an informant who stated that he had been offered an unlimited number of counterfeit $20 notes, by someone he had met. The notes had first appeared in the Los Angeles area several days earlier. The informant arranged for an undercover agent to meet the suspect. Subsequently, an initial purchase of $2,000 in counterfeit twenties was made and the undercover agent ordered an additional $200,000.

Two days later, another informant reported having met the same suspect, who he had accompanied to a Los Angeles apartment where they met the printer of these notes. The apartment was located near a

[1] The counterfeiter, who the agent first met in July 1968, was shot to death in New York City in August 1969, the victim of a gangland slaying.

print shop operated by a former counterfeiter. Investigation revealed that the ex-counterfeiter had recently purchased a supply of the type of paper used to produce the counterfeit notes.

The first suspect was arrested on August 10 while making the $200,000 delivery to the undercover agent. An additional $200,000 in notes was discovered at the suspect's apartment where his brother was also arrested. The printer was arrested at his shop where $400,000 more in counterfeits were seized.

The printer had first been arrested for counterfeiting in Chicago in 1958, and received a 5-year sentence. He was arrested again in Los Angeles in 1963 and served 4 years of a 9-year sentence. At the time of his August 1968 arrest, he was on parole and before June 30, 1969, had received an additional 3-year sentence.

During March 1968, an Ohio printer was arrested for producing a series of 12 counterfeit notes which had been appearing in the Midwest for over 18 months. After pleading guilty to these charges, he became a fugitive when he failed to surrender at the time his sentence was to have begun.

Efforts to locate the fugitive during the following months were fruitless. Nothing was learned of his whereabouts until he and two others were arrested during December 1968 while passing a new counterfeit note at a surburban New Orleans shopping center. The printer's new counterfeiting plant, located in a small Florida town, was seized several days later. The printer received a 4-year sentence to be served upon completion of the 10-year sentence arising from his conviction in Ohio.

The investigation of one of the year's most significant counterfeiting conspiracies culminated in December 1968 with the arrest of a counterfeit notepasser in San Francisco. The passer agreed to cooperate and, subsequently, introduced an undercover agent to his supplier. Negotiations continued for several weeks without results. In late January 1969, the agent was able to make a small purchase of counterfeit notes and to complete arrangements for a later delivery of $50,000 in Columbus, Ohio.

Agents observed the distributor arrive at the Columbus airport on February 4 and followed him to a motel where he met with the undercover agent to confirm arrangements for the second delivery. Meanwhile, agents had placed the distributor's uncle, a Columbus resident, under surveillance.

As the distributor left the undercover agent's room to obtain the counterfeits, other agents were following the uncle's car to the motel. The two suspects met in the motel parking lot, where the uncle gave an airline flight bag to the distributor. The bag, containing counterfeit notes, was taken to the agent's room, where the supplier was arrested while making the delivery. The uncle was arrested several miles away.

Agents found over $1.5 million in counterfeit notes, printing plates, a press, and other equipment hidden in a concealed room in the attic of the uncle's residence following his arrest.

Both defendants entered guilty pleas and received 10-year sentences.

During July 1968 a counterfeiting operation was suppressed in its initial stages when a passer was arrested in Keansburg, N.J. The

arrest was made shortly after the appearance of a new series of counterfeit $20 notes. This arrest became more significant when unused offset printing plates were found hidden at the passer's residence.

Subsequent investigation led to the identification and arrest of two individuals who had purchased the plates, an offset press, and other supplies from one printing firm.

On the basis of additional information supplied by an informant, agents arrested six more conspirators who had participated in the manufacture of these notes. This series of arrests resulted in the seizure of nearly $3 million in counterfeit notes before they could be placed in circulation.

Late in 1967, an informant reported to the Secret Service that two Milwaukee printers with prior criminal records were allegedly conspiring to produce counterfeit currency. Investigation, however, failed to support the allegation.

Continued interest in their activities proved warranted in June 1969 when a second informant provided information linking one suspect with a delivery of new counterfeit notes in Omaha.

Surveillance was again undertaken, which resulted in the arrest of the two several days later while they were printing counterfeit notes in Milwaukee. Nearly $700,000 in $5, $10, and $20 counterfeits were seized when the arrests were made.

A major counterfeiting conspiracy investigated during fiscal 1969 began in 1967 when three men purchased a printing press and other equipment from printing supply houses in Atlanta, Ga. Their paraphernalia was delivered to a location in northern Florida, where they produced nearly $750,000 in counterfeit $20 notes.

Two of these men were arrested when they delivered $250,000 in these notes to an undercover agent at the Atlanta airport. The third man became a fugitive.

Nearly a year later, this criminal took a second printing press and other equipment purchased from a Louisville supplier to a remote area in southern Alabama. He and newly recruited associates produced a second series of counterfeits, totaling nearly $1 million. These notes were distributed throughout the Southeast and Midwest.

Through the efforts of a special detail of agents assigned to this investigation, shipments of counterfeit notes for New Orleans, Houston, and Milwaukee, totaling nearly $300,000, were seized before they could be circulated.

Other agents of this investigative team, working undercover, succeeded in infiltrating the gang's hierarchy which was operating in southern Georgia. The leader and several of his associates were arrested in October 1968, after making a delivery of $32,000 to an undercover agent.

The principal conspirator was facing counterfeiting charges in Kentucky, Louisiana, and Georgia at the fiscal yearend. The notes produced by the two plants were responsible for $333,000 in losses to the public. A total of 181 persons were arrested for passing his notes.

In early 1969, the Secret Service was advised that a novice printer had visited several Los Angeles supply houses and had purchased a press and other equipment. A trailer used by the subject was traced to an address in Las Vegas which had been rented under his assumed

name. Agents learned the subject's true identity and that shortly after his release from a California prison he had enrolled in a printing course at a Los Angeles trade school.

At the same time other agents maintained surveillance over the suspect's activities. A search warrant was obtained and the plant site raided on February 26, 1969. The subject and three associates were arrested while producing photographic negatives and offset printing plates which were intended for use in counterfeiting $10 and $20 notes. These conspirators never had the opportunity to produce a counterfeit note.

During fiscal 1969 the forgery of Government obligations continued to represent a substantial part of the investigative responsibilities of the Secret Service.

The number of forged U.S. Treasury checks referred to the Secret Service for investigation during fiscal 1969 amounted to 52,411, an increase of 1.6 percent over the referrals received during fiscal 1968. It should be recognized that the number of Government checks issued during fiscal 1969 increased by more than 15,000,000. During fiscal 1969, a total of 42,923 investigations involving U.S. Treasury checks were completed and 2,119 individuals were arrested for check forgery violations.

The number of cases closed and arrests made represents a decrease from 1968 when 52,667 investigations were completed and 2,422 forgers were arrested. This decrease was attributed to the unusual workload imposed on Secret Service manpower during fiscal 1969. These manpower demands were the result of increased protective responsibilities involving major presidential and vice presidential candidates.

While most of the forged checks were stolen from home or apartment mailboxes, there was an unusual case in Washington, D.C. involving the theft of approximately 1,000 Civil Service annuity checks from a U.S. Post Office on or about August 1, 1968. Approximately 300 of these checks were forged and negotiated in the Washington area. By the fiscal yearend, eight persons had been arrested and charged with the forgery and negotiation of these checks.

During fiscal 1969, 19,848 Government bonds were referred for investigation in connection with a claim of forgery, an increase of 21.1 percent over fiscal 1968.

The Bureau of Public Debt, as of May 31, 1969, advised that 255,570 bonds, with a face value of $31,153,953, had been reported stolen and remained outstanding. These totals only include reported thefts amounting to $1,000 or more. Therefore, theft reports of less than $1,000 must also be considered as potential forgeries.

Persons handling stolen goods, "fences," who have connections with organized crime figures, often traffic in stolen U.S. savings bonds.

A major investigation into bond forgery activity in the New York–New Jersey area was begun in April 1969. A number of forgers were arrested in connection with this investigation. The arrested forgers had negotiated approximately $175,000 in savings bonds. The investigation was continuing at the fiscal yearend and further arrests were anticipated.

Two men were arrested in Wisconsin in October 1968, while attempting to negotiate a quantity of bonds which had been stolen from a Florida motel. These men, with an unknown female accomplice, were responsible for the forgery and negotiation of approximately $85,000 worth of stolen U.S. savings bonds. Most of these bonds had been stolen from the Chicago area, and had been negotiated in Minnesota, Wisconsin, Texas, Nebraska, and Ohio.

The two forgers were released on bail. In January 1969, they renewed their operations with the same female accomplice and a brother of one of the men. They successfully passed an additional $15,000 worth of savings bonds during January, February, and March. The original two forgers, together with their female accomplice and the other man, had been arrested by the end of the fiscal year.

The following tables show the number of criminal and noncriminal investigations completed and arrests made by the Secret Service in fiscal years 1968 and 1969.

Criminal and noncriminal cases investigated, fiscal years 1968 and 1969

Cases investigated	1968	1969
Counterfeiting	23,025	18,177
Forged Government checks	52,667	47,280
Forged Government bonds	11,505	14,435
Protective intelligence	14,614	12,380
Other criminal and noncriminal	3,422	5,592
Total	105,233	97,864

Number of arrests, fiscal years 1968 and 1969

Offenses	1968	1969
Counterfeiting	1,370	1,394
Forged Government checks	2,422	2,119
Forged Government bonds	146	113
Protective intelligence	338	337
Miscellaneous	61	56
Total	4,337	4,019

Offenses investigated by the Secret Service resulted in the conviction of 2,999 persons, 96.1 percent of the cases brought to trial during fiscal year 1969.

Cooperation

The Secret Service is a participating agency in the Department of Justice's Organized Crime Task Force project.

The Secret Service appreciates the outstanding assistance it continues to receive from law enforcement at all levels, and from interested citizens in behalf of its protective and investigative responsibilities.

EXHIBITS

Public Debt Operations, Regulations, and Legislation

Treasury Notes Offered and Allotted

During fiscal year 1969 there were no offerings of marketable Treasury certificates of indebtedness or Treasury bonds.

Exhibit 1.—Treasury notes

Two Treasury circulars, one containing an exchange offering and the other containing a cash offering, are reproduced in this exhibit. Circulars pertaining to the other note offerings during the fiscal year 1969 are similar in form and therefore are not reproduced in this report. However, essential details for each offering are summarized in the first table following the circulars and the final allotments of the new notes are shown in the second table.

DEPARTMENT CIRCULAR NO. 6–68. PUBLIC DEBT

TREASURY DEPARTMENT,
Washington, August 1, 1968.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers $5,100,000,000, or thereabouts, of notes of the United States, designated 5⅝ percent Treasury Notes of Series B–1974, at 99.62 percent of their face value and accrued interest. In addition to the amount offered for public subscription, the Secretary of the Treasury reserves the right to allot an additional amount of these notes to Government Investment Accounts and Federal Reserve Banks. The following securities, maturing August 15, 1968, will be accepted at par in payment or exchange, in whole or in part, to the extent subscriptions are allotted by the Treasury:

4¼ percent Treasury Notes of Series C–1968; or

3¾ percent Treasury Bonds of 1968.

The books will be open only on August 5, 1968, for the receipt of subscriptions.

II. DESCRIPTION OF NOTES

1. The notes will be dated August 15, 1968, and will bear interest from that date at the rate of 5⅝ percent per annum, payable semiannually on February 15 and August 15 in each year until the principal amount becomes payable. They will mature August 15, 1974, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes is subject to all taxes imposed under the Internal Revenue Code of 1954. The notes are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4 Bearer notes with interest coupons attached, and notes registered as to principal and interest, will be issued in denominations of $1,000, $5,000, $10,000, $100,000, $1,000,000, $100,000,000 and $500,000,000. Provision will be made for the interchange of notes of different denominations and of coupon and registered notes, and for the transfer of registered notes, under rules and regulations prescribed by the Secretary of the Treasury.

5. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions accepting the offer made by this circular will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220. Only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit subscriptions for account of customers provided the names of the customers are set forth in such subscriptions. Others than commercial banks will not be permitted to enter subscriptions except for their own account. Subscriptions from commercial banks for their own account will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not including capital notes or debentures), surplus and undivided profits of the subscribing bank. Subscriptions will be received without deposit from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon. Subscriptions from all others must be accompanied by payment (in cash or in securities of the issues enumerated in Paragraph 1 of Section I hereof, which will be accepted at par) of 10 percent of the amount of notes applied for, not subject to withdrawal until after allotment. Registered securities submitted as deposits should be assigned as provided in Section V hereof. Following allotment, any portion of the 10 percent payment in excess of 10 percent of the amount of notes allotted may be released upon the request of the subscribers.

2. All subscribers are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any notes of this issue at a specific rate or price, until after midnight August 5, 1968.

3. Commercial banks in submitting subscriptions will be required to certify that they have no beneficial interest in any of the subscriptions they enter for the account of their customers, and that their customers have no beneficial interest in the banks' subscriptions for their own account.

4. Under the Second Liberty Bond Act, as amended, the Secretary of the Treasury has the authority to reject or reduce any subscription, to allot less than the amount of notes applied for, and to make different percentage allotments to various classes of subscribers when he deems it to be in the public interest; and any action he may take in these respects shall be final. Subject to the exercise of that authority subscriptions will be allotted:

(1) in full if the subscription is for $250,000 or less:

(2) in full for any State, political subdivision or instrumentality thereof, public pension and retirement and other public fund, international organization in which the United States holds membership, and foreign central bank and foreign state and such subscriber certifies in writing that at 4 p.m., eastern daylight saving time, July 31, 1968, it owned or had contracted to purchase for value securities of the issues enumerated in Paragraph 1 of Section I hereof, in an aggregate amount equal to or greater than the amount of such subscription (any such subscriber may enter an additional subscription subject to a percentage allotment); and

(3) on a percentage basis as publicly announced, but not less than $250,000. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at 99.62 percent of their face value and accrued interest, if any, for notes allotted hereunder must be made or completed on or before August 15, 1968, or on later allotment. Payment will not be deemed to have been completed where registered notes are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. In every case where full payment is not completed, the payment with application up to 10 percent of the amount of notes allotted shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Payment may be made for any notes allotted

hereunder in cash or by exchange of securities of the issues enumerated in Paragraph 1 of Section I hereof, which will be accepted at par. A cash adjustment will be made for the difference ($3.80 per $1,000) between the par value of maturing securities accepted in exchange and the issue price of the new notes. The payment will be made by check or by credit in any account maintained by a banking institution with the Federal Reserve Bank of its District, following acceptance of the maturing securities. In the case of registered securities, the payment will be made in accordance with the assignments on the securities surrendered. Any qualified depositary will be permitted to make payment by credit in its Treasury Tax and Loan Account for not more than 50 percent of the amount of notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District. When payment is made with securities in bearer form, coupons dated August 15, 1968, should be detached and cashed when due. When payment is made with registered securities, the final interest due on August 15, 1968, will be paid by issue of interest checks in regular course to holders of record on July 15, 1968, the date the transfer books closed.

V. ASSIGNMENT OF REGISTERED SECURITIES

1. Treasury securities in registered form tendered as deposits and in payment for notes allotted hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of the Treasury Department, in one of the forms hereafter set forth. Securities tendered in payment should be surrendered to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, D.C. 20220. The maturing securities must be delivered at the expense and risk of the holder. If the new notes are desired registered in the same name as the securities surrendered, the assignment should be to "The Secretary of the Treasury for 5⅝ percent Treasury Notes of Series B–1974"; if the new notes are desired registered in another name, the assignment should be to "The Secretary of the Treasury for 5⅝ percent Treasury Notes of Series B–1974 in the name of ____________"; if new notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for 5⅝ percent Treasury Notes of Series B–1974 in coupon form to be delivered to ____________".

VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notices as may be necessary, to receive payment for and make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

JOSEPH W. BARR,
Acting Secretary of the Treasury.

DEPARTMENT CIRCULAR NO. 3–69. PUBLIC DEBT

TREASURY DEPARTMENT,
Washington, May 1, 1969.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers notes of the United States, designated 6⅜ percent Treasury Notes of Series D–1970, at 99.95 percent of their face value, in exchange for the following securities:

5⅝ percent Treasury Notes of Series B–1969, maturing May 15, 1969; or
2½ percent Treasury Bonds of 1964–69, maturing June 15, 1969, in amounts of $1,000 or multiples thereof.

Interest will be adjusted on the bonds of 1964–69 as of June 15, 1969. Payments on account of accrued interest and cash adjustments will be made as set forth

in Section IV hereof. The amount of this offering will be limited to the amount of eligible securities tendered in exchange. The books will be open only on May 5 through May 7, 1969, for the receipt of subscriptions.

2. In addition, holders of the securities enumerated in Paragraph 1 of this section are offered the privilege of exchanging all or any part of them for 6½ percent Treasury Notes of Series B–1976, which offering is set forth in Department Circular, Public Debt Series—No. 4–69, issued simultaneously with this circular.

II. DESCRIPTION OF NOTES

1. The notes will be dated May 15, 1969, and will bear interest from that date at the rate of 6⅜ percent per annum, payable on a semiannual basis on August 15, 1969, and on February 15 and August 15, 1970. They will mature August 15, 1970, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes is subject to all taxes imposed under the Internal Revenue Code of 1954. The notes are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer notes with interest coupons attached, and notes registered as to principal and interest, will be issued in denominations of $1,000, $5,000, $10,000, $100,000, $1,000,000, $100,000,000 and $500,000,000. Provision will be made for the interchange of notes of different denominations and of coupon and registered notes, and for the transfer of registered notes, under rules and regulations prescribed by the Secretary of the Treasury.

5. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions accepting the offer made by this circular will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

2. Under the Second Liberty Bond Act, as amended, the Secretary of the Treasury has the authority to reject or reduce any subscription, and to allot less than the amount of notes applied for when he deems it to be in the public interest; and any action he may take in these respects shall be final. Subject to the exercise of that authority, all subscriptions will be allotted in full.

IV. PAYMENT

1. Payment for the face amount of notes allotted hereunder must be made on or before May 15, 1969, or on later allotment, and may be made only in a like face amount of securities of the issues enumerated in Paragraph 1 of Section I hereof, which should accompany the subscription. Payment will not be deemed to have been completed where registered notes are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. Payments due to subscribers will be made by check or by credit in any account maintained by a banking institution with the Federal Reserve Bank of its District following acceptance of the securities surrendered. In the case of registered securities, the payment will be made in accordance with the assignments thereon.

2. *5⅝ percent notes of Series B–1969.*—When payment is made with notes in bearer form, coupons dated May 15, 1969, should be *detached* and cashed when due. When payment is made with registered notes, the final interest due on May 15, 1969, will be paid by issue of interest checks in regular course to holders of record on April 15, 1969, the date the transfer books closed. A cash payment of $0.50 per $1,000 on account of the issue price of the new notes will be made to subscribers.

3. *2½ percent bonds of 1964–69.*—When payment is made with bonds in bearer form, coupons dated June 15, 1969, must be *attached* to the bonds when surrendered. Accrued interest from December 15, 1968, to June 15, 1969 ($12.50 per $1,000), plus the payment on account of the issue price of the new notes ($0.50 per $1,000) will be credited and accrued interest from May 15 to June 15, 1969 ($5.45925 per $1,000) on the new notes will be charged and the difference ($7.54075 per $1,000) will be paid to subscribers.

V. ASSIGNMENT OF REGISTERED SECURITIES

1. Treasury securities in registered form tendered in payment for notes offered hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange, in one of the forms hereafter set forth, and thereafter should be surrendered with the subscription to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, D.C. 20220. The maturing securities must be delivered at the expense and risk of the holder. If the new notes are desired registered in the same name as the securities surrendered, the assignment should be to "The Secretary of the Treasury for exchange for 6⅜ percent Treasury Notes of Series D–1970"; if the new notes are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for 6⅜ percent Treasury Notes of Series D–1970 in the name of ____________"; if new notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for 6⅜ percent Treasury Notes of Series D–1970 in coupon form to be delivered to ____________".

VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notices as may be necessary, to receive payment for and make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

David M. Kennedy,
Secretary of the Treasury.

363-222—70——11

Summary of information pertaining to Treasury notes issued during the fiscal year 1969

Date of preliminary announcement	Department circular No.	Department circular Date	Concurrent offering circular No.	Treasury notes issued for exchange or for cash	Date of issue	Date of maturity	Date subscription books closed	Allotment payment date on or before (or on later allotment)
1968 July 31	6-68	*1968* Aug. 1		5⅝ percent Series B-1974 issued at 99.62 for cash [1]	*1968* Aug. 15	*1974* Aug. 15	*1968* Aug. 5	*1968* Aug. 1
Oct. 23	7-68	Oct. 24	8-68	5⅝ percent Series B-1970 issued at 99.85 in exchange for 5¼ percent Series D-1968 notes maturing Nov. 15, 1968. 3⅞ percent bonds maturing Nov. 15, 1968. 2½ percent bonds maturing Dec. 15, 1968.[2]	Nov. 15	*1970* May 15	Oct. 30	Nov. 15
Oct. 23	8-68	Oct. 24	7-68	5¾ percent Series A-1974 issued at par in exchange for 5¼ percent Series D-1968 notes maturing Nov. 15, 1968. 3⅞ percent bonds maturing Nov. 15, 1968. 2½ percent bonds maturing Dec. 15, 1968.[4]	*1967* Nov. 15 [3]	*1974* Nov. 15	Oct. 30	Nov. 15
1969 Jan. 29	1-69	*1969* Jan. 30	2-69	6⅜ percent Series C-1970 issued at 99.95 in exchange for 5⅝ percent Series A-1969 notes maturing Feb. 15, 1969. 4 percent bonds maturing Feb. 15, 1969.	*1969* Feb. 15	*1970* May 15	*1969* Feb. 5	*1969* Feb. 17
Jan. 29	2-69	Jan. 30	1-69	6¼ percent Series A-1976 issued at 99.75 in exchange for 5⅝ percent Series A-1969 notes maturing Feb. 15, 1969. 4 percent bonds maturing Feb. 15, 1969.	Feb. 15	*1976* Feb. 15	Feb. 5	Feb. 17
Apr. 30	3-69	May 1	4-69	6⅜ percent Series D-1970 issued at 99.95 in exchange for [5] 5⅝ percent Series B-1969 notes maturing May 15, 1969. 2½ percent bonds maturing June 15, 1969.	May 15	*1970* Aug. 15	May 7	May 15
Apr. 30	4-69	May 1	3-69	6½ percent Series B-1976 issued at par in exchange for 5⅝ percent Series B-1969 notes maturing May 15, 1969. 2½ percent bonds maturing June 15, 1969.[6]	May 15	*1976* May 15	May 7	May 15

[1] Holders of Treasury notes and bonds maturing on Aug. 15, 1968, were not offered preemptive rights to exchange their holdings for the new notes. See Department Circular No. 6-68 in this exhibit for provisions for subscription and payment.

[2] Interest on the 2½-percent bonds was adjusted as of Dec. 15, 1968. Subscribers were credited with interest from June 15 to Dec. 15, 1968 ($12.50 per $1,000), on the bonds and charged interest from Nov. 15 to Dec. 15, 1968 ($4.66160), on the new notes.

[3] Interest was payable from Nov. 15, 1968.

[4] Interest on the 2½-percent bonds was adjusted as of Dec. 15, 1968. Subscribers were credited with interest from June 15 to Dec. 15, 1968 ($12.50 per $1,000), on the bonds and charged interest from Nov. 15 to Dec. 15, 1968 ($4.76519 per $1,000), on the new notes.

[5] See Department Circular No. 3-69 in this exhibit for provisions for subscription and payment.

[6] Interest on the bonds was adjusted as of June 15, 1969. Subscribers were credited with interest from Dec. 15, 1968, to June 15, 1969 ($12.50 per $1,000), on the bonds and charged interest from May 15 to June 15, 1969 ($5.47554 per $1,000), on the new notes.

Allotments of Treasury notes issued during the fiscal year 1969, by Federal Reserve districts

[In thousands]

Federal Reserve district	5⅝ percent Series B–1974 notes [1]	5⅝ percent Series B–1970 notes issued in exchange for [2]— 5¼ percent Series D–1968 Treasury notes maturing Nov. 15, 1968	3⅞ percent Treasury bonds of 1968 maturing Nov. 15, 1968	2½ percent Treasury bonds of 1963–68 maturing Dec. 15, 1968	Total issued	5¾ percent Series A–1974 notes issued in exchange for [2]— 5¼ percent Series D–1968 Treasury notes maturing Nov. 15, 1968	3⅞ percent Treasury bonds of 1968 maturing Nov. 15, 1968	2½ percent Treasury bonds of 1963–68 maturing Dec. 15, 1968	Total issued
Boston	$254, 594	$46, 198	$5, 178	$4, 423	$55, 799	$47, 435	$3, 565	$2, 348	$53, 348
New York	6, 663, 621	5, 714, 838	266, 768	348, 538	6, 330, 144	1, 393, 405	133, 389	178, 885	1, 705, 679
Philadelphia	193, 709	45, 729	10, 391	15, 178	71, 298	16, 080	3, 972	22, 812	42, 864
Cleveland	323, 078	78, 074	12, 167	8, 144	98, 385	26, 152	13, 261	7, 817	47, 230
Richmond	215, 284	68, 335	24, 261	11, 394	103, 990	7, 555	5, 263	9, 784	22, 602
Atlanta	314, 204	116, 089	15, 225	16, 132	147, 446	25, 322	6, 870	11, 857	44, 049
Chicago	695, 853	206, 553	104, 399	72, 421	383, 373	68, 628	53, 278	69, 463	191, 369
St. Louis	208, 694	96, 982	21, 865	30, 094	148, 941	30, 513	8, 621	13, 033	52, 167
Minneapolis	118, 655	32, 095	34, 899	6, 235	73, 229	11, 470	4, 844	6, 918	23, 232
Kansas City	224, 807	69, 365	23, 721	11, 507	104, 593	25, 469	8, 896	9, 177	43, 542
Dallas	170, 561	80, 922	13, 444	15, 340	109, 706	12, 008	2, 339	32, 298	46, 645
San Francisco	900, 039	93, 711	31, 706	23, 029	148, 446	18, 262	2, 921	34, 763	55, 946
Treasury	823	14, 366	156	2, 943	17, 465	68	238	368	674
Total allotments	10, 283, 922	6, 663, 257	564, 180	565, 378	7, 792, 815	1, 682, 367	247, 457	399, 523	2, 329, 347
Exchanged in concurrent offering		1, 682, 367	247, 457	399, 523	2, 329, 347	6, 663, 257	564, 180	565, 378	7, 792, 815
Total exchanged		8, 345, 624	811, 637	964, 901	10, 122, 162	8, 345, 624	811, 637	964, 901	10, 122, 162
Not submitted for exchange		638, 437	346, 448	822, 159	1, 807, 044	638, 437	346, 448	822, 159	1, 807, 044
Total eligible for exchange		8, 984, 061	1, 158, 085	1, 787, 060	11, 929, 206	8, 984, 061	1, 158, 085	1, 787, 060	11, 929, 206

Footnotes at end of table.

Allotments of Treasury notes issued during the fiscal year 1969, by Federal Reserve districts—Continued

[In thousands]

Federal Reserve district	6⅜ percent Series C-1970 notes issued in exchange for [2]—			6¼ percent Series A-1976 notes issued in exchange for [2]—		
	5⅝ percent Series A-1969 Treasury notes maturing Feb. 15, 1969	4 percent Treasury bonds of 1969 maturing Feb. 15, 1969	Total issued	5⅝ percent Series A-1969 Treasury notes maturing Feb. 15, 1969	4 percent Treasury bonds of 1969 maturing Feb. 15, 1969	Total issued
Boston	$70, 289	$39, 694	$109, 983	$7, 813	$6, 930	$14, 743
New York	5, 641, 695	1, 389, 120	7, 030, 815	2, 782, 016	410, 764	3, 192, 780
Philadelphia	62, 608	50, 753	113, 361	6, 572	15, 487	22, 059
Cleveland	107, 657	62, 345	170, 002	32, 499	29, 821	62, 320
Richmond	41, 661	39, 365	81, 026	9, 970	11, 761	21, 731
Atlanta	111, 769	39, 833	151, 602	23, 796	21, 782	45, 578
Chicago	254, 727	173, 785	428, 512	80, 452	82, 166	162, 618
St. Louis	121, 201	46, 522	167, 723	26, 144	22, 977	49, 121
Minneapolis	49, 657	33, 763	83, 420	11, 224	19, 659	30, 883
Kansas City	93, 253	43, 007	136, 260	24, 337	35, 057	59, 394
Dallas	86, 934	56, 363	143, 297	9, 505	17, 091	26, 596
San Francisco	80, 214	47, 956	128, 170	22, 102	27, 661	49, 763
Treasury	15, 393	3, 961	19, 354	223	949	1, 172
Total allotments	6, 737, 058	2, 026, 467	8, 763, 525	3, 036, 653	702, 105	3, 738, 758
Exchanged in concurrent offering	3, 036, 653	702, 105	3, 738, 758	6, 737, 058	2, 026, 467	8, 763, 525
Total exchanged	9, 773, 711	2, 728, 572	12, 502, 283	9, 773, 711	2, 728, 572	12, 502, 283
Not submitted for exchange	963, 850	999, 417	1, 963, 267	963, 850	999, 417	1, 963, 267
Total eligible for exchange	10, 737, 561	3, 727, 989	14, 465, 550	10, 737, 561	3, 727, 989	14, 465, 550

Footnotes at end of table.

Allotments of Treasury notes issued during the fiscal year 1969, by Federal Reserve districts—Continued

[In thousands]

Federal Reserve district	6⅜ percent Series D–1970 notes issued in exchange for [2]—			6½ percent Series B–1976 notes issued in exchange for [2]—		
	5⅝ percent Series B–1969 Treasury notes maturing May 15, 1969	2½ percent Treasury bonds of 1964–69 maturing June 15, 1969	Total issued	5⅝ percent Series B–1969 Treasury notes maturing May 15, 1969	2½ percent Treasury bonds of 1964–69 maturing June 15, 1969	Total issued
Boston	$41, 214	$5, 562	$46, 776	$76, 887	$5, 157	$82, 044
New York	814, 694	354, 075	1, 168, 769	1, 065, 988	601, 237	1, 667, 225
Philadelphia	45, 752	9, 069	54, 821	33, 469	16, 613	50, 082
Cleveland	85, 694	9, 808	95, 502	63, 140	21, 255	84, 395
Richmond	30, 693	10, 430	41, 123	26, 371	17, 826	44, 197
Atlanta	114, 014	40, 372	154, 386	44, 359	11, 492	55, 851
Chicago	177, 569	51, 885	229, 454	145, 937	83, 417	229, 354
St. Louis	107, 829	29, 273	137, 102	55, 069	19, 973	75, 042
Minneapolis	24, 282	5, 383	29, 665	22, 668	16, 186	38, 854
Kansas City	61, 923	10, 790	72, 713	46, 678	22, 682	69, 360
Dallas	70, 096	9, 001	79, 097	26, 549	15, 137	41, 686
San Francisco	125, 199	87, 394	212, 593	139, 590	116, 563	256, 153
Treasury	3, 948	3, 433	7, 381	1, 528	1, 228	2, 756
Total allotments	1, 702, 907	626, 475	2, 329, 382	1, 748, 233	948, 766	2, 696, 999
Exchanged in concurrent offering	1, 748, 233	948, 766	2, 696, 999	1, 702, 907	626, 475	2, 329, 382
Total exchanged	3, 451, 140	1, 575, 241	5, 026, 381	3, 451, 140	1, 575, 241	5, 026, 381
Not submitted for exchange	826, 117	965, 412	1, 791, 529	826, 117	965, 412	1, 791, 529
Total eligible for exchange	4, 277, 257	2, 540, 653	6, 817, 910	4, 277, 257	2, 540, 653	6, 817, 910

[1] Subscriptions from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, and foreign central banks and foreign states were allotted in full up to the amount that the subscriber certified that it owned a like amount of maturing securities that could be used in payment for the notes. Subscriptions from Federal Reserve banks and Government accounts were allotted in full. All subscriptions for $250,000 or less were allotted in full. All other subscriptions were allotted 18 percent but with a minimum allotment of $250,000 to any 1 subscriber.

[2] All subscriptions were allotted in full.

Treasury Bills Offered and Tenders Accepted

Exhibit 2.—Treasury bills

During the fiscal year there were 52 weekly issues of 13-week and 26-week bills (the 13-week bills represent additional issues of bills with an original maturity of 26 weeks), 13 monthly issues of one-year and 9-month bills (the 9-month bills represent additional issues of bills with an original maturity of one year), 5 issues of tax anticipation series, and 2 issues of strips of additional amounts of outstanding issues. Two press releases inviting tenders are reproduced in this exhibit. The release of May 21, 1969, is representative of releases for regular weekly, regular monthly, and tax anticipation series issues while the release of March 18, 1969, is representative of the releases for the strip issues. Also reproduced is the press release of May 26, 1969, which is representative of releases announcing the results of the offerings. Following the press releases is a table of data for each issue issued during the fiscal year.

PRESS RELEASE OF MAY 21, 1969

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 29, 1969, in the amount of $3,002,261,000, as follows:

91-day bills (to maturity date) to be issued May 29, 1969, in the amount of $1,700,000,000, or thereabouts, representing an additional amount of bills dated February 27, 1969, and to mature August 28, 1969, originally issued in the amount of $1,100,827,000, the additional and original bills to be freely interchangeable.

183-day bills, for $1,300,000,000, or thereabouts, to be dated May 29, 1969, and to mature November 28, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000. $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, 1:30 p.m., eastern daylight saving time, Monday, May 26, 1969. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 29, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 29, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences

between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

PRESS RELEASE OF MARCH 18, 1969

The Treasury Department, by this public notice, invites tenders for additional amounts of six series of Treasury bills to an aggregate amount of $1,800,000,000, or thereabouts, for cash. The additional bills will be issued March 31, 1969, will be in the amounts, and will be in addition to the bills originally issued and maturing, as follows:

Amount of additional issues	Original issue dates	Maturity dates	Days from Mar. 31, 1969 to maturity	Amount currently outstanding (in millions)
	1968	*1969*		
$300,000,000	Nov. 7	May 8	38	$2,702
300,000,000	Nov. 14	May 15	45	2,699
300,000,000	Nov. 21	May 22	52	2,705
300,000,000	Nov. 29	May 29	59	2,702
300,000,000	Dec. 5	June 5	66	2,701
300,000,000	Dec. 12	June 12	73	2,701
1,800,000,000			[1] 55.5	

[1] Average of days to maturity.

The additional and original bills will be freely interchangeable.

Each tender submitted must be in the amount of $6,000, or an even multiple thereof, and one-sixth of the amount tendered will be applied to each of the above series of bills.

The bills offered hereunder will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, 1:30 p.m., eastern standard time, Tuesday, March 25, 1969. Tenders will not be received at the Treasury Department, Washington. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. A single price must be submitted for each unit of $6,000, or even multiple thereof. A unit represents $1,000 face amount of each issue of bills offered hereunder, as pre-

viously described. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks and Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of these additional issues at a specific rate or price, until after 1:30 p.m., eastern standard time, Tuesday, March 25, 1969.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Noncompetitive tenders for $180,000 or less (in even multiples of $6,000) without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately available funds on March 31, 1969; provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss. Purchasers of a strip of the bills offered hereunder should, for tax purposes, take such bills on to their books on the basis of their purchase price prorated to each of the six outstanding issues using as a basis for proration the closing market prices for each of the issues on March 31, 1969. (Federal Reserve Banks will have available a list of these market prices, based on the mean between the bid and asked quotation furnished by the Federal Reserve Bank of New York.)

Treasury Department Circular No. 418, Revised, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

PRESS RELEASE OF MAY 26, 1969

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 27, 1969,

and the other series to be dated May 29, 1969, which were offered on May 21, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,700,000,000, or thereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 183-day bills. The details of the two series are as follows:

Range of accepted competitive bids	91-day Treasury bills maturing Aug. 28, 1969		183-day Treasury bills maturing Nov. 28, 1969	
	Price (dollars)	Approximate equivalent annual rate (percent)	Price (dollars)	Approximate equivalent annual rate (percent)
High	98.464	6.076	[1] 96.862	6.173
Low	[2] 98.448	6.140	[3] 96.831	6.234
Average	98.452	[4] 6.124	96.839	[4] 6.218

[1] Excepting 1 tender of $1,450,000.
[2] 99 percent of the amount of 91-day bills bid for at the low price was accepted.
[3] 40 percent of the amount of 183-day bills bid for at the low price was accepted.
[4] These rates are on a bank discount basis. The equivalent coupon issue yields are 6.31 percent for the 91-day bills, and 6.51 percent for the 183-day bills.

Total tenders applied for and accepted by Federal Reserve districts

District	Applied for	Accepted	Applied for	Accepted
Boston	$15,546,000	$15,546,000	$3,251,000	$3,251,000
New York	1,989,864,000	1,298,374,000	1,631,163,000	1,008,163,000
Philadelphia	37,491,000	22,491,000	17,141,000	7,141,000
Cleveland	51,176,000	48,063,000	25,541,000	25,541,000
Richmond	14,185,000	12,130,000	11,597,000	8,797,000
Atlanta	41,553,000	26,031,000	28,664,000	18,314,000
Chicago	149,613,000	94,089,000	174,515,000	99,315,000
St. Louis	52,455,000	37,400,000	36,132,000	30,432,000
Minneapolis	32,374,000	27,219,000	28,789,000	28,289,000
Kansas City	30,978,000	30,977,000	14,122,000	14,122,000
Dallas	23,377,000	13,372,000	17,760,000	7,760,000
San Francisco	151,621,000	74,978,000	130,880,000	48,880,000
Total	2,590,233,000	[1] 1,700,670,000	2,119,555,000	[2] 1,300,005,000

[1] Includes $297,958,000 noncompetitive tenders accepted at the average price of 98.452.
[2] Includes $143,474,000 noncompetitive tenders accepted at the average price of 96.839.

Summary of information pertaining to Treasury bills issued during the fiscal year 1969

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity [1]	Maturity value: Total applied for	Tenders accepted: Total accepted	Tenders accepted: On competitive basis	Tenders accepted: On noncompetitive basis	Tenders accepted: For cash	Tenders accepted: In exchange	Total bids accepted: Average price per hundred	Total bids accepted: Equivalent average rate (percent)	Competitive bids accepted: High: Price per hundred	High: Equivalent rate (percent)	Low: Price per hundred	Low: Equivalent rate (percent)	Amount maturing on issue date of new offering
REGULAR WEEKLY															
1968															
July 5	Oct. 3, 1968	90	$2, 118, 537	$1, 601, 057	$1, 321, 788	$279, 269	$1, 127, 854	$473, 203	98. 650	5. 401	98. 665	5. 340	98. 625	5. 500	$1, 600, 433
5	Jan. 2, 1969	181	1, 981, 351	1, 100, 496	966, 889	133, 607	798, 607	301, 889	97. 190	5. 588	97. 218	5. 533	97. 184	5. 601	1, 001, 047
11	Oct. 10, 1968	91	2, 637, 141	1, 601, 541	1, 286, 610	314, 931	1, 297, 971	303, 570	98. 643	5. 368	98. 660	5. 301	98. 636	5. 396	1, 600, 485
11	Jan. 9, 1969	182	1, 995, 745	1, 102, 029	942, 699	159, 330	858, 363	243, 666	97. 265	5. 410	97. 290	5. 360	97. 249	5. 442	1, 001, 879
18	Oct. 17, 1968	91	2, 625, 339	1, 601, 074	1, 289, 940	311, 134	1, 127, 975	473, 099	98. 618	5. 467	[2] 98. 625	5. 440	98. 612	5. 491	1, 602, 462
18	Jan. 16, 1969	182	2, 475, 696	1, 100, 618	961, 851	138, 767	848, 235	252, 383	97. 190	5. 557	[2] 97. 204	5. 531	97. 185	5. 568	1, 000, 753
25	Oct. 24, 1968	91	2, 868, 583	1, 601, 125	1, 289, 199	311, 926	1, 172, 065	429, 060	98. 662	5. 293	98. 671	5. 258	98. 659	5. 305	1, 601, 006
25	Jan. 23, 1969	182	2, 365, 351	1, 100, 161	964, 885	135, 276	797, 425	302, 736	97. 287	5. 367	97. 294	5. 353	97. 281	5. 378	1, 002, 368
Aug. 1	Oct. 31, 1968	91	2, 620, 341	1, 599, 373	1, 301, 313	298, 060	1, 119, 296	480, 077	98. 688	5. 192	98. 695	5. 163	98. 683	5. 210	1, 600, 432
1	Jan. 30, 1969	182	2, 319, 519	1, 100, 928	968, 638	132, 290	799, 531	301, 397	97. 327	5. 288	97. 344	5. 254	97. 320	5. 301	999, 988
8	Nov. 7, 1968	91	2, 532, 412	1, 600, 437	1, 333, 093	267, 344	1, 143, 282	457, 155	98. 760	4. 906	98. 766	4. 882	98. 752	4. 937	1, 600, 291
8	Feb. 6, 1969	182	2, 278, 734	1, 103, 181	987, 922	115, 259	801, 648	301, 533	97. 422	5. 100	97. 436	5. 072	97. 413	5. 117	1, 000, 905
15	Nov. 14, 1968	91	2, 405, 451	1, 600, 179	1, 371, 641	228, 538	1, 190, 569	409, 610	98. 715	5. 083	[2] 98. 729	5. 028	98. 706	5. 119	1, 600, 009
15	Feb. 13, 1969	182	2, 284, 867	1, 101, 147	975, 956	125, 191	799, 339	301, 808	97. 334	5. 273	[2] 97. 348	5. 246	97. 329	5. 283	1, 001, 918
22	Nov. 21, 1968	91	2, 282, 544	1, 601, 529	1, 346, 048	255, 481	1, 101, 813	499, 716	98. 705	5. 123	98. 713	5. 091	98. 699	5. 147	1, 600, 680
22	Feb. 20, 1969	182	2, 034, 492	1, 101, 172	982, 459	118, 713	799, 559	301, 613	97. 361	5. 219	97. 380	5. 182	97. 352	5. 238	1, 000, 178
29	Nov. 29, 1968	92	2, 404, 283	1, 600, 075	1, 333, 757	266, 318	1, 098, 306	501, 769	98. 678	5. 174	98. 686	5. 142	98. 670	5. 204	1, 600, 036
29	Feb. 27, 1969	182	2, 271, 095	1, 104, 469	991, 125	113, 344	851, 963	252, 506	97. 350	5. 242	[2] 97. 359	5. 224	97. 347	5. 248	1, 000, 438
Sept. 5	Dec. 5, 1968	91	2, 493, 002	1, 601, 915	1, 358, 188	243, 727	1, 132, 733	469, 182	98. 687	5. 196	98. 693	5. 171	98. 680	5. 222	1, 600, 368
5	Mar. 6, 1969	182	2, 708, 525	1, 102, 679	996, 302	106, 377	821, 080	281, 599	97. 346	5. 249	[2] 97. 354	5. 234	97. 343	5. 256	1, 000, 041
12	Dec. 12, 1968	91	2, 739, 963	1, 601, 307	1, 277, 516	323, 791	1, 398, 131	203, 176	98. 674	5. 247	98. 682	5. 214	98. 665	5. 281	1, 600, 487
12	Mar. 13, 1969	182	1, 968, 611	1, 100, 203	971, 318	128, 885	896, 454	203, 749	97. 332	5. 277	[2] 97. 352	5. 238	97. 314	5. 313	1, 000, 290
19	Dec. 19, 1968	91	2, 525, 110	1, 600, 899	1, 287, 119	313, 780	1, 149, 596	451, 303	98. 681	5. 217	98. 684	5. 206	98. 678	5. 230	1, 600, 480
19	Mar. 20, 1969	182	2, 261, 515	1, 100, 108	962, 314	137, 794	772, 760	327, 348	97. 347	5. 249	[2] 97. 352	5. 238	97. 341	5. 260	1, 000, 051
26	Dec. 26, 1968	91	2, 843, 306	1, 604, 498	1, 293, 003	311, 495	1, 277, 514	326, 984	98. 698	5. 150	98. 703	5. 131	98. 696	5. 159	1, 599, 999
26	Mar. 27, 1969	182	2, 031, 266	1, 102, 282	974, 071	128, 211	809, 892	292, 390	97. 356	5. 230	97. 362	5. 218	97, 348	5. 246	1, 000, 527

	1969														
Oct. 3	Jan. 2	91	2,338,146	1,601,109	1,313,642	287,467	1,176,733	424,376	98.690	5.182	98.698	5.151	98.682	5.214	1,601,057
3	Apr. 3	182	1,829,917	1,101,507	968,089	133,418	768,575	332,932	97.329	5.284	[2] 97.342	5.258	97,316	5.309	1,000,448
10	Jan. 9	91	2,105,256	1,600,755	1,276,173	324,582	1,215,939	384,816	98.666	5.276	98.678	5.230	98.650	5.341	1,601,541
10	Apr. 10	182	1,866,187	1,103,127	949,694	153,433	819,134	283,993	97.289	5.363	[2] 97.302	5.337	97.277	5.386	1,000,511
17	Jan. 16	91	2,346,580	1,601,078	1,268,792	332,286	1,158,075	443,003	98.649	5.346	98.667	5.273	98.638	5.388	1,601,074
17	Apr. 17	182	2,119,468	1,101,755	939,024	162,731	765,490	336,265	97.256	5.427	97.284	5.372	97.250	5.440	1,102,644
24	Jan. 23	91	2,293,556	1,600,156	1,292,983	307,173	1,154,840	445,316	98.636	5.395	98.651	5.337	98.623	5.447	1,601,125
24	Apr. 24	182	2,095,932	1,100,123	953,514	146,609	787,024	313,099	97.241	5.457	97.263	5.414	97.234	5.471	1,100,682
31	Jan. 30	91	2,461,489	1,603,104	1,303,870	299,234	1,099,004	504,100	98.617	5.471	[2] 98.625	5.440	98.612	5.491	1,599,373
31	May 1	182	1,887,810	1,101,238	957,286	143,952	748,161	353,077	97.233	5.472	97.250	5.440	97.222	5.495	1,100,119
Nov. 7	Feb. 6	91	2,383,540	1,600,440	1,301,061	299,379	1,152,421	448,019	98.596	5.554	98.617	5.471	98.588	5.586	1,600,437
7	May 8	182	2,045,006	1,101,010	972,624	128,386	769,104	331,906	97.161	5.615	[2] 97,184	5.570	97.154	5.629	1,101,578
14	Feb. 13	91	2,432,170	1,603,302	1,334,648	268,654	1,150,816	452,486	98.614	5.482	98.624	5.444	98.609	5.503	1,600,180
14	May 15	182	1,945,588	1,102,720	972,829	129,891	770,187	332,533	97.168	5.601	97.186	5.566	97.160	5.618	1,101,062
21	Feb. 20	91	2,541,534	1,602,005	1,316,235	285,770	1,132,326	469,679	98.614	5.482	98.623	5.447	98.610	5.499	1,601,529
21	May 22	182	2,145,753	1,102,308	958,003	144,305	749,524	352,784	97.129	5.679	[2] 97.144	5.649	97.120	5.697	1,100,119
29	Feb. 27	90	2,474,029	1,599,821	1,315,996	283,825	1,233,506	366,315	98.638	5.446	98.649	5.404	98.632	5.472	1,600,075
29	May 29	181	2,031,086	1,100,150	948,949	151,201	812,705	287,445	97.198	5.573	97.208	5.553	97.188	5.593	1,099,821
Dec. 5	Mar. 6	91	2,380,974	1,600,054	1,323,926	276,128	1,158,367	441,687	98.576	5.633	98.585	5.598	98.567	5.669	1,600,054
5	June 5	182	1,875,862	1,100,082	958,709	141,373	772,359	327,723	97.103	5.730	[2] 97.120	5.697	97.092	5.752	1,099,439
12	Mar. 13	91	2,172,593	1,600,333	1,276,642	323,691	1,244,745	355,588	98.537	5.787	[2] 98.554	5.720	98.524	5.839	1,600,333
12	June 12	182	1,932,428	1,100,831	938,372	162,459	835,179	265,652	97.014	5.906	97.029	5.877	97.002	5.930	1,100,121
19	Mar. 20	91	2,383,759	1,601,279	1,285,900	315,379	1,175,172	426,107	98.492	5.967	98.503	5.922	98.484	5.997	1,601,279
19	June 19	182	2,176,006	1,101,293	924,822	176,471	796,864	304,429	96.958	6.016	96.970	5.993	96.950	6.033	1,100,851
26	Mar. 27	91	2,889,135	1,606,738	1,330,659	276,079	1,362,864	243,874	98.413	6.279	98.434	6.195	98.405	6.310	1,606,738
26	June 26	182	2,417,073	1,104,988	948,558	156,430	869,818	235,170	96.764	6.400	[2] 96.810	6.310	96.749	6.431	1,105,037
1969															
Jan. 2	Apr. 3	91	2,133,633	1,602,623	1,330,794	271,829	1,224,200	378,423	98.433	6.200	98.451	6.128	98.407	6.302	1,601,109
2	July 3	182	1,879,319	1,102,883	942,350	160,533	801,216	301,667	96.799	6.331	[2] 96.816	6.298	96.785	6.359	1,100,496
9	Apr. 10	91	2,643,381	1,604,528	1,235,483	369,045	1,236,076	368,452	98.426	6.226	98.443	6.160	98.421	6.247	1,600,755
9	July 10	182	2,096,970	1,101,815	862,323	239,492	798,551	303,264	96.782	6.365	96.798	6.334	96.774	6.381	1,102,029
16	Apr. 17	91	2,674,196	1,601,541	1,205,515	396,026	1,266,387	335,154	98.429	6.215	98.438	6.179	98.425	6.231	1,601,078
16	July 17	182	2,615,923	1,100,670	881,831	218,839	847,449	253,221	96.777	6.374	[2] 96.784	6.361	96.773	6.383	1,100,618
23	Apr. 24	91	2,666,544	1,603,377	1,249,043	354,334	1,282,815	320,562	98.464	6.077	98.471	6.049	98.456	6.108	1,600,156
23	July 24	182	2,587,607	1,097,452	896,099	201,353	844,837	252,615	96.849	6.232	96.853	6.225	96.844	6.243	1,100,161
31	May 1	91	2,647,456	1,600,000	1,269,566	330,434	1,191,818	408,182	98.441	6.168	98.448	6.140	98.437	6.183	1,603,104
31	July 31	182	2,450,023	1,103,254	921,311	181,943	821,833	281,421	96.838	6.255	96.849	6.233	96.835	6.260	1,100,928
Feb. 6	May 8	91	2,797,908	1,600,925	1,275,760	325,165	1,155,388	445,537	98.420	6.251	98.429	6.215	98.417	6.262	1,600,440
6	Aug. 7	182	2,189,630	1,100,483	921,802	178,681	773,324	327,159	96.785	6.360	96.800	6.330	96.781	6.367	1,103,181
13	May 15	91	3,797,945	1,596,020	1,263,520	332,500	1,113,731	482,289	98.433	6.199	[2] 98.437	6.183	98.426	6.227	1,603,302
13	Aug. 14	182	3,058,749	1,100,498	926,393	174,105	778,275	322,223	96.790	6.350	[2] 96.793	6.344	96.778	6.373	1,101,147
20	May 22	91	2,402,649	1,602,709	1,279,760	322,949	1,157,707	445,002	98.460	6.093	98.475	6.033	98.446	6.148	1,602,005
20	Aug. 21	182	1,972,717	1,104,142	933,804	170,338	777,519	326,623	96.831	6.269	[2] 96.850	6.231	96.814	6.302	1,101,172
27	May 29	91	2,495,446	1,601,642	1,284,885	316,757	1,173,201	428,441	98.463	6.082	98.473	6.041	98.455	6.112	1,599,821
27	Aug. 28	182	1,901,852	1,100,827	937,865	162,962	807,912	292,915	96.835	6.260	[2] 96.848	6.235	96.822	6.286	1,104,479
Mar. 6	June 5	91	2,523,027	1,600,505	1,265,515	334,990	1,226,579	373,926	98.429	6.214	[2] 98.436	6.187	98.424	6.235	1,600,054
6	Sept. 4	182	2,165,303	1,101,060	939,089	161,971	857,938	243,122	96.794	6.341	[2] 96.797	6.336	96.788	6.353	1,102,679
13	June 12	91	2,517,903	1,600,404	1,234,705	365,699	1,229,521	370,883	98.471	6.048	98.480	6.013	98.464	6.076	1,600,333
13	Sept. 11	182	2,043,632	1,100,151	929,720	170,431	876,248	223,903	96.849	6.233	96.858	6.215	96.840	6.251	1,100,203
20	June 19	91	2,829,254	1,600,940	1,253,438	347,502	1,206,184	394,756	98.456	6.107	[2] 98.463	6.080	98.454	6.116	1,601,279
20	Sept. 18	182	2,183,103	1,100,321	934,036	166,285	837,546	262,775	96.855	6.220	[2] 96.868	6.195	96.850	6.231	1,100,105

Footnotes at end of table.

Summary of information pertaining to Treasury bills issued during the fiscal year 1969—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity [1]	Total applied for	Maturity value: Tenders accepted: Total accepted	On competitive basis	On noncompetitive basis	For cash	In exchange	Prices and rates: Total bids accepted: Average price per hundred	Equivalent average rate (percent)	Competitive bids accepted: High: Price per hundred	High: Equivalent rate (percent)	Low: Price per hundred	Low: Equivalent rate (percent)	Amount maturing on issue date of new offering
REGULAR WEEKLY—Continued															
1969	*1969*														
Mar. 27	June 26	91	$2,812,889	$1,600,300	$1,260,980	$339,320	$1,192,738	$407,562	98.497	5.947	98.503	5.922	98.493	5.962	$1,606,738
27	Sept. 25	182	2,244,465	1,100,689	942,938	157,751	837,421	263,268	96.918	6.097	96.932	6.069	96.912	6.108	1,102,282
31 [3]	May 8 15 22 29 June 5 12	38 45 52 59 66 73	3,186,234	1,802,814	1,702,836	99,978	1,802,814	----------	99.225	5.030	[2] 99.250	4.865	99.207	5.144	----------
Apr. 3	July 3	91	2,383,087	1,601,962	1,254,603	347,359	1,154,583	$447,379	98.467	6.064	[2] 98.475	6.033	98.459	6.096	1,602,623
3	Oct. 2	182	2,164,949	1,100,404	933,785	166,619	786,730	313,674	96.898	6.135	96.906	6.120	96.892	6.148	1,101,507
10	July 10	91	2,774,189	1,602,105	1,218,952	383,153	1,195,730	406,375	98.441	6.168	[2] 98.446	6.148	98.438	6.179	1,604,528
10	Oct. 9	182	2,369,263	1,101,261	925,752	175,509	831,545	269,716	96.873	6.185	96.880	6.171	96.866	6.199	1,103,127
17	July 17	91	2,605,758	1,601,030	1,189,770	411,260	1,220,177	380,853	98.434	6.195	[2] 98.447	6.144	98.430	6.211	1,601,541
17	Oct. 16	182	2,143,304	1,100,975	924,032	176,943	837,431	263,544	96.870	6.191	[2] 96.881	6.169	96.862	6.207	1,101,755
24	July 24	91	2,628,404	1,600,980	1,213,610	387,370	1,164,684	436,296	98.439	6.174	98.445	6.152	98.436	6.187	1,603,377
24	Oct. 23	182	2,502,197	1,102,578	933,842	168,736	953,743	148,835	96.884	6.164	[2] 96.892	6.148	96.881	6.169	1,100,123
May 1	July 31	91	2,963,779	1,603,353	1,238,169	365,184	1,159,597	443,756	98.470	6.052	98.473	6.041	98.468	6.061	1,600,000
1	Oct. 30	182	2,190,532	1,099,921	947,704	152,217	797,828	302,093	96.945	6.043	[2] 96.952	6.029	96.940	6.053	1,101,238
8	Aug. 7	91	2,563,989	1,700,279	1,372,344	327,935	1,235,713	464,566	98.489	5.976	[2] 98.498	5.942	98.478	6.021	[4] 1,600,925
8	Nov. 6	182	2,254,992	1,300,282	1,155,201	145,081	948,262	352,020	96.935	6.062	96.951	6.031	96.922	6.088	1,101,010
15	Aug. 14	91	2,513,098	1,701,597	1,372,915	328,682	1,297,172	404,425	98.462	6.083	[2] 98.480	6.013	98.451	6.128	[4] 1,596,020
15	Nov. 13	182	2,217,837	1,300,474	1,149,928	150,546	898,317	402,157	96.870	6.191	[2] 96.891	6.150	96.852	6.227	1,102,720
22	Aug. 21	91	2,588,141	1,700,472	1,390,633	309,839	1,225,235	475,237	98.446	6.147	98.458	6.100	98.436	6.187	[4] 1,602,709
22	Nov. 20	182	2,414,938	1,300,740	1,153,994	146,746	948,654	352,086	96.850	6.231	96.864	6.203	96.836	6.258	1,102,308
29	Aug. 28	91	2,590,868	1,701,307	1,402,714	298,593	1,205,882	495,425	98.452	6.125	98.464	6.076	98.448	6.140	[4] 1,601,642
29	Nov. 28	183	2,119,566	1,300,016	1,156,531	143,485	922,740	377,276	96.839	6.218	[2] 96.862	6.173	96.831	6.234	1,100,150
June 5	Sept. 4	91	2,635,519	1,700,954	1,391,980	308,974	1,229,692	471,262	98.435	6.192	98.450	6.132	98.427	6.223	[4] 1,600,505
5	Dec. 4	182	2,223,407	1,301,356	1,162,300	139,056	999,824	301,532	96.737	6.454	96.766	6.397	96.722	6.484	1,100,082
12	Sept. 11	91	2,546,166	1,700,145	1,360,258	339,887	1,301,708	398,437	98.334	6.590	[2] 98.372	6.440	98.309	6.690	[4] 1,600,404
12	Dec. 11	182	2,072,610	1,300,610	1,127,919	172,691	996,557	304,053	96.498	6.927	[2] 96.544	6.836	96.463	6.996	1,100,831
19	Sept. 18	91	2,840,503	1,600,291	1,277,391	322,900	1,111,037	489,254	98.315	6.666	98.321	6.642	98.311	6.682	1,600,940
19	Dec. 18	182	2,374,422	1,100,761	909,121	191,640	806,258	294,503	96.636	6.654	96.643	6.640	96.623	6.680	1,101,293
26	Sept. 25	91	2,623,093	1,600,338	1,212,933	387,405	1,137,332	463,006	98.351	6.522	98.363	6.476	98.344	6.551	1,600,300
26	Dec. 26	183	1,895,476	1,100,270	902,567	197,703	796,355	303,915	96.510	6.866	[2] 96.542	6.803	96.477	6.930	1,104,988

REGULAR MONTHLY

1968	*1969*														
July 1	Mar. 31	273	$1,200,228	$500,328	$484,523	$15,805	$362,241	$138,087	95.643	5.745	95.678	5.699	95.624	5.771	$500,005
1 [5]	June 30	365	2,205,146	1,001,671	961,113	40,558	725,546	276,125	94.189	5.732	[2] 94.206	5.715	94.172	5.748	1,000,547
31	Apr. 30	273	1,841,152	500,452	484,653	15,799	340,612	159,840	95.949	5.342	95.958	5.330	95.944	5.349	500,529
31	July 31	365	2,944,932	1,000,971	962,294	38,677	720,522	280,449	94.617	5.310	[2] 94.629	5.297	94.608	5.318	1,000,551
Sept. 2	May 31	270	1,598,616	500,618	480,226	20,392	383,819	116,799	96.066	5.245	[2] 96.085	5.220	96.056	5.259	500,175
2 [5]	Aug. 31	365	2,592,016	1,000,387	958,775	41,612	738,762	261,625	94.777	5.151	94.789	5.140	94.763	5.165	1,000,336
30	June 30	273	1,343,175	500,675	474,987	25,688	387,670	113,005	96.055	5.202	[2] 96.083	5.165	96.046	5.214	500,190
30	Sept. 30	365	2,040,707	1,000,607	955,565	45,042	739,364	261,243	94.821	5.108	[2] 94.844	5.085	94.809	5.120	1,000,206
Oct. 31	July 31	273	1,318,465	501,533	483,709	17,824	350,745	150,788	95.870	5.446	[2] 95.883	5.429	95.859	5.461	500,170
31	Oct. 31	365	1,990,254	1,002,199	962,916	39,283	751,376	250,823	94.524	5.401	[2] 94.536	5.389	94.506	5.419	1,001,770
Dec. 2	Aug. 31	272	1,337,456	505,256	483,867	21,389	365,174	140,082	95.699	5.693	95.716	5.670	95.685	5.711	500,257
2 [5]	Nov. 30	365	1,972,729	1,000,940	953,268	47,672	760,354	240,586	94.355	5.567	94.370	5.553	94.328	5.594	1,000,262
31	Sept. 30	273	1,254,340	500,400	481,259	19,141	399,512	100,888	95.084	6.483	95.147	6.400	95.059	6.516	499,549
31	Dec. 31	365	1,795,338	999,152	943,736	55,416	797,624	201,528	93.499	6.412	93.531	6.380	93.425	6.485	999,945
1969															
Jan. 31	Oct. 31	273	1,310,040	500,110	476,284	23,826	329,957	170,153	95.302	6.195	95.319	6.173	95.286	6.216	500,387
31	Jan. 31, 1970	365	1,839,538	1,000,177	934,874	65,303	735,200	264,977	93.771	6.144	[2] 93.815	6.100	93.744	6.170	1,000,078
Feb. 28	Nov. 30, 1969	275	1,323,981	500,061	482,623	17,438	300,054	200,007	95.182	6.307	95.233	6.240	95.157	6.340	500,444
28	Feb. 28, 1970	365	1,463,876	1,000,376	963,957	36,419	778,131	222,245	93.679	6.235	93.744	6.170	93.623	6.290	1,001,786
	Apr. 30, 1969	58													
	May 31, 1969	89													
Mar. 3 [6]	June 30, 1969	119	2,961,840	1,001,825	936,665	65,160	1,001,825	----------	98.041	5.907	[2] 98.058	5.855	98.035	5.925	----------
	July 31, 1969	150													
	Aug. 31, 1969	181													
31	Dec. 31, 1969	275	1,570,401	500,550	482,618	17,932	326,133	174,417	95.372	6.059	95.387	6.039	95.364	6.069	500,328
	1970														
31	Mar. 31	365	1,759,566	1,000,536	955,759	44,777	719,796	280,740	93.783	6.132	93.825	6.090	93.752	6.162	1,000,119
Apr. 30	Jan. 31	276	1,427,989	500,489	487,130	13,359	329,597	170,892	95.418	5.976	[2] 95.443	5.944	95.393	6.009	[7] 500,452
30	Apr. 30	365	1,877,739	1,000,634	960,402	40,232	700,044	300,590	93.987	5.930	94.081	5.900	93.936	5.981	1,000,784
June 2	Feb. 28	271	1,438,134	500,164	485,808	14,356	322,176	177,988	95.252	6.307	95.295	6.250	95.222	6.347	[7] 500,618
2 [5]	May 31	365	1,814,145	1,000,225	960,975	39,250	719,677	280,548	93.643	6.270	[2] 93.719	6.195	93.597	6.315	1,002,167
30	Mar. 31	274	1,177,116	500,821	482,909	17,912	378,171	122,650	94.378	7.387	[2] 94.459	7.280	94.299	7.490	[7] 500,675
30	June 30	365	2,416,628	1,201,406	1,152,687	48,719	920,152	281,254	92.556	7.342	[2] 92.654	7.245	92.528	7.370	1,001,671

Footnotes at end of table.

Summary of information pertaining to Treasury bills issued during the fiscal year 1969—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity [1]	Maturity value: Total applied for	Tenders accepted: Total accepted	Tenders accepted: On competitive basis	Tenders accepted: On noncompetitive basis	Tenders accepted: For cash	Tenders accepted: In exchange	Prices and rates: Total bids accepted: Average price per hundred	Total bids accepted: Equivalent average rate (percent)	Competitive bids accepted: High: Price per hundred	High: Equivalent rate (percent)	Low: Price per hundred	Low: Equivalent rate (percent)	Amount maturing on issue date of new offering
TAX ANTICIPATION															
1968	*1969*														
July 11	Mar. 24	256	$4, 210, 480	$2, 015, 011	$1, 736, 526	$278, 485	$2, 015, 011	----------	96. 161	5. 399	[2] 96. 176	5. 378	96. 147	5. 418	----------
11	Apr. 22	285	4, 026, 121	2, 003, 192	1, 769, 172	234, 020	2, 003, 192	----------	95. 705	5. 426	[2] 95. 737	5. 385	95. 689	5. 445	----------
Oct. 24	June 23	242	6, 950, 766	3, 010, 446	2, 553, 880	456, 566	3, 010, 446	----------	96. 519	5. 178	[2] 96. 545	5. 140	96. 509	5. 193	----------
Dec. 2	23	203	4, 372, 733	2, 001, 143	1, 645, 250	355, 893	2, 001, 143	----------	96. 905	5. 489	[2] 96. 972	5. 370	96. 891	5. 513	----------
1969															
Jan. 20	23	154	5, 027, 721	1, 759, 499	1, 553, 098	206, 401	1, 759, 499	----------	97. 459	5. 940	97. 476	5. 900	97. 450	5. 961	----------

[1] The 13-week bills are additional issues of bills with an original maturity of 26 weeks, except that when the date of maturity of either a 13-week or 26-week issue is on the last day of a month, the bills are additional issues of bills with an original maturity of 1 year. The 9-month bills are additional issues of bills with an original maturity of 1 year.

[2] Relatively small amounts of bids were accepted at a price or prices somewhat above the high shown. However, the higher price or prices are not shown in order to prevent an appreciable discontinuity in the range (covered by the high to the low prices shown) which would make it misrepresentative.

[3] An additional $300,469,000 each of the regular weekly issues issued as a strip.

[4] An additional $300,469,000 of the strip of bills issued Mar. 31, 1969, matured.

[5] Issue date on bills is last day of previous month.

[6] An additional $200,365,000 each of the regular monthly issues issued as a strip.

[7] An additional $200,365,000 of the strip of bills issued Mar. 3, 1969, matured.

NOTE.—The usual timing with respect to weekly issues of Treasury bills is: Press release inviting tenders, 8 days before date of issue; and closing date for the receipt of tenders and press release announcing results of auction, 3 days before date of issue.

Figures are final and may differ from those shown in the press release announcing preliminary results.

For each issue of regular weekly (13-week and 26-week bills) and regular monthly (9-month and 1-year) bills noncompetitive tenders for $200,000 or less from any 1 bidder were accepted in full at the average price of accepted competitive bids. For each issue of tax anticipation bills the maximum amount for noncompetitive tenders was $400,000 except for the 154-day issue of Jan. 20 when the amount was $200,000. The maximum amounts for noncompetitive tenders for the strips of bills were $100,000 for the Mar. 3 issue and $180,000 for the Mar. 31 issue.

All equivalent rates of discount are on a bank-discount basis.

Qualified depositaries were permitted to make payment by credit in Treasury tax and loan accounts for all of the tax anticipation series issues and the two strip issues allotted to them for themselves and their customers. Payment by credit in Treasury tax and loan accounts for the regular weekly and regular monthly bills was not permitted.

Regulations

Exhibit 3.—Third amendment, June 13, 1969, of Department Circular No. 300, general regulations with respect to United States securities

Treasury Department,
Washington, June 13, 1969.

Subpart O of Treasury Department Circular No. 300, Third Revision, dated December 23, 1964, as amended (31 CFR Part 306) is hereby further amended and revised, effective July 15, 1969, as follows:

SUBPART O—BOOK-ENTRY PROCEDURE

Sec. 306.115. *Definition of terms.*

In this subpart, unless the context otherwise requires or indicates:

(a) "Reserve Bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of the United States.

(b) "Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of a definitive Treasury security or a book-entry Treasury security.

(c) "Definitive Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in engraved or printed form.

(d) "Book-entry Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of an entry made as prescribed in this subpart on the records of a Reserve Bank.

(e) "Serially-numbered advice of transaction" means the confirmation (prescribed in Sec. 306.116) issued by a Reserve Bank which is identifiable by a unique number and indicates that a particular written instruction to the Reserve Bank with respect to the deposit or withdrawal of a specified book-entry Treasury security (or securities) has been executed.

(f) "Pledge" includes a pledge of, or any other security interest in, Treasury securities held as collateral for loans or advances or to secure deposits of public monies or the performance of an obligation.

(g) "Date of call" (see Sec. 306.2) is "the date fixed in the official notice of call published in the Federal Register * * * on which the obligor will make payment of the security before maturity in accordance with its terms."

Sec. 306.116. *Authority of Reserve Banks.*

Each Reserve Bank is hereby authorized and directed, in accordance with the provisions of this subpart, to (a) issue book-entry Treasury securities by means of entries on its records which shall include the name of the depositor, the amount, the title of the loan (or the series) and the maturity date; (b) effect conversions between book-entry Treasury securities and definitive Treasury securities; (c) otherwise service and maintain book-entry Treasury securities; and (d) issue serially-numbered advices of transactions with respect to each instruction relating to the deposit or withdrawal of a book-entry Treasury security (or securities) which has been executed. Each such advice shall confirm that book-entry Treasury securities of the amount, loan title (or series) and maturity date specified in the depositor's instruction have been deposited or withdrawn.

Sec. 306.117. *Scope and effect of book-entry procedure.*

(a) The book-entry procedure shall apply to Treasury securities deposited with any Reserve Bank (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (2) as collateral pledged to the United States under Treasury Department Circulars No. 92 or 176, both as revised and amended, and (3) by a member bank of the Federal Reserve System for its sole account and in lieu of the safekeeping of definitive Treasury securities by a Reserve Bank in its individual capacity. Any depositor which has definitive Treasury securities on deposit with a Reserve Bank (in either its individual capacity or as Fiscal Agent) for any purpose specified above or which hereafter deposits such securities for any such purpose shall be deemed to have consented to their conversion to book-entry Treasury securities pursuant to the provisions of this subpart, and in the manner and under the procedures prescribed by the Reserve Bank.

(b) (1) A Reserve Bank as Fiscal Agent of the United States may also apply the book-entry procedure provided for in this subpart to any Treasury

securities which have been or are hereafter deposited for any purpose in accounts with it in its individual capacity under terms and conditions which indicate that the Reserve Bank will continue to maintain such deposit accounts in its individual capacity, notwithstanding application of the book-entry procedure to such securities. This paragraph is applicable, but not limited, to securities deposited:[1]

(i) In connection with deposits in member banks of funds of States, municipalities, or other political subdivisions; or

(ii) In connection with the performance of an obligation or duty under Federal, State, municipal or local law, or judgments or decrees of courts.

The application of the book-entry procedure under this paragraph shall not derogate from or adversely affect the relationships that would otherwise exist between a Reserve Bank in its individual capacity and its depositors concerning any deposits under this paragraph. Whenever the book-entry procedure is applied to such Treasury securities, the Reserve Bank is authorized to take all action necessary in respect of the book-entry procedure to enable such Reserve Bank in its individual capacity to perform its obligations as depositary with respect to such Treasury securities.

(2) The rights of all persons in all Treasury securities (whether pledged or otherwise) referred to in subparagraph (1) of this paragraph shall in all respect be the same when those securities are in book-entry form as if definitive Treasury securities in bearer form in the same amount and of the same loan (or series) and maturity date had at all times been held in custody by the Reserve Bank in its individual capacity in accordance with the agreement between such bank and its depositors.

(c) In addition to applying the book-entry procedure to Treasury securities deposited under paragraphs (a) and (b) of this section, the procedure may be applied by any Reserve Bank, with the approval of the Secretary of the Treasury, to any other Treasury securities deposited with the Reserve Bank.

(d) No deposits shall be accepted under this section on or after the date of maturity or call of the securities.

Sec. 306.118. *Pledges.*

A pledge of book-entry Treasury securities maintained under Sec. 306.117 is effected, notwithstanding any provision of law to the contrary, by a Reserve Bank's making an appropriate entry in its records of the amount of the securities pledged. The making of such entry (a) shall have the effect of a delivery of definitive Treasury securities in bearer form in the amount of the obligations pledged; (b) shall have the effect of a taking of delivery by the pledgee; (c) shall effect a perfected security interest therein in favor of the pledgee; and (d) shall constitute such pledgee a holder. No filing or recording with a public recording office or officer shall be necessary to perfect any pledge in any book-entry Treasury securities under this subpart. Any pledge of definitive Treasury securities existing at the time of the conversion hereunder of such securities to book-entry form shall continue to be fully effective notwithstanding such conversion. A Reserve Bank shall, upon receipt of appropriate instructions, convert book-entry Treasury securities into definitive Treasury securities and deliver them to the pledgee or other appropriate party for disposition under the applicable pledge arrangement; and the pledge interest of the pledgee in such book-entry Treasury securities prior to conversion to definitive securities shall continue without interruption to be fully effective with respect to such definitive securities.

Sec. 306.119. *Limitations on transfers or pledges.*

Except as provided in this subpart, book-entry Treasury securities may not be assigned, transferred, hypothecated, pledged as collateral, or used as security for the performance of an obligation, and the Treasury Department will not recognize any such assignment, transfer, hypothecation, pledge or use.

Sec. 306.120. *Withdrawals and transfers.*

Withdrawals and transfers of book-entry Treasury securities may be made upon a depositor requesting (a) delivery of like definitive Treasury securities to itself or on its order to a transferee, or (b) transfer to any transferee eligible under Sec. 306.117. The making of any book-entry transfer by a Reserve Bank shall have the same effect as a delivery to the transferee of definitive Treasury securities in bearer form. The transfer of book-entry Treasury securities within a Reserve Bank will be made in accordance with procedures established by the latter not

[1] See T.D. 6934, as amended by T.D. 7015, as set out in the Appendix to this subpart for rules of identification of book-entry securities for Federal income tax purposes.

inconsistent with this subpart. The transfer of book-entry Treasury securities between Reserve Banks will be made through a telegraphic transfer procedure. All requests for withdrawal or for transfer must be made prior to the maturity or date of call of the securities. Treasury bonds and notes which are actually to be delivered upon withdrawal or transfer may be issued either in registered or in bearer form, except that EA and EO series of Treasury notes will be issued in bearer form only.

Sec. 306.121. *Registered bonds and notes.*

No formal assignment shall be required for the conversion to book-entry Treasury securities of registered Treasury securities held by a Reserve Bank (in either its individual capacity or as Fiscal Agent) on the effective date of this subpart for any purpose specified in Sec. 306.117(a). Registered Treasury securities deposited thereafter with a Reserve Bank for any purpose specified in Sec. 306.117 shall be assigned for conversion to book-entry Treasury securities. The assignment, which shall be executed in accordance with the provisions of Subpart F of the regulations in this part, so far as applicable, shall be to "Federal Reserve Bank of____________, as Fiscal Agent of the United States, for conversion to book-entry Treasury securities."

Sec. 306.122. *Servicing book-entry Treasury securities; payment of interest, payment at maturity or upon call.*

Interest becoming due on book-entry Treasury securities shall be charged in the Treasurer's account on the interest due date and remitted or credited in accordance with the depositor's instructions. Such securities shall be redeemed and charged in the Treasurer's account on the date of maturity, call or advance refunding, and the redemption proceeds, principal and interest, shall be disposed of in accordance with the depositor's instructions.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

APPENDIX

RECORDS FOR FEDERAL INCOME TAX PURPOSES

Section 1.1012–1(c) of the Federal Income Tax Regulations provides certain rules regarding the identification of securities for the purpose of determining the basis (normally cost) and holding period of assets—data relevant in ascertaining the amount and nature of gain or loss upon the sale or transfer of the assets.

Subparagraph (7) of section 1.1012–1(c) of the Income Tax Regulations (added by Treasury Decision 6934 and amended by Treasury Decision 7015, quoted below) provides a special rule for the identification of a book-entry Treasury security directed to be disposed of by the owner.[1] The special rule permits the serially-numbered advice of transaction (required by section 306.116 of this Subpart) issued by a Reserve Bank upon completion of a transaction, when made pursuant to written instructions, to be used in identifying the particular security sold or transferred. The written instruction and advice of transaction constitute adequate identification.

Revenue Ruling 67–419, as amplified by Revenue Ruling 69–416, both set forth below, particularizes the manner in which the identification may be made by requiring the written instruction to identify the particular book-entry Treasury security either by purchase date and cost or by reference, where applicable, simply to the serially-numbered advice of transaction relating to its acquisition. This latter method applies only to a limited class of case—that is, where the securities are acquired by a Reserve Bank for the owner in book-entry form, either upon original subscription to a Treasury offering or otherwise.[2]

[1] It should be noted that this rule is only appropriate where the disposing owner retains one or more securities of precisely the same description which it had acquired on a different date or at a different price. Where a security of precisely the same description acquired on a different date or at a different price is not retained, there is no problem of identifying the securities being sold or transferred, since either no others of similar description are owned, or they are from the same lot.

[2] The serially-numbered advice of transaction issued by a Federal Reserve Bank in this or any other type of case in or in connection with book entry will not contain price and date of acquisition but in this type of case the advice relating to the acquisition can be used to identify the particular book-entry security involved. Since the mere conversion by a Reserve Bank of definitive Treasury securities owned by a depositor into book-entry form (or vice versa) occurs after the depositor-taxpayer's books of account properly should reflect their acquisition, which might have been at different times or at different prices, the number of a serially-numbered advice of transaction relating to such conversion affords no adequate means of identifying a particular security for purposes of either Section 1012 or Section 1236 of the Internal Revenue Code of 1954.

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It is important for a taxpayer to comply fully with the special rule of section 1.1012–1(c)(7) of the Income Tax Regulations if it wishes to be certain that the "first-in, first-out" (FIFO) rule of section 1.1012–1(c)(1) of the cited regulations will not apply to its disposition of a book-entry Treasury security.

Although dealers in any securities are not eligible as dealers to hold a Treasury security in book-entry form under the present Fiscal Service Regulations, if they are otherwise eligible to do so, they may hold such a security in the form of a book-entry for investment purposes. Since all dealers in securities are subject to the requirements of section 1236 of the Internal Revenue Code, the Revenue Ruling set forth below also provides a method for them to use in identifying a book-entry Treasury security held for investment which satisfies section 1236. Whenever a book-entry security is acquired on original issue or otherwise for the account of the owner, the Reserve Bank will issue a serially-numbered advice. The entry on the taxpayer's books of account of the number of the advice, together with a description of the security acquired to which it relates and an indication that it is held for investment, will be sufficient to identify it as being held for investment purposes.

(T.D. 6934)

Title 26—INTERNAL REVENUE

Chapter I—Internal Revenue Service, Department of the Treasury

Subchapter A—Income Tax

PART 1—INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

Identification of Book-Entry Treasury Securities

In order to modify the identification rules for purposes of determining basis and holding period of property in the case of certain Treasury securities, paragraph (c) of Sec. 1.1012–1 of the Income Tax Regulations (26 CFR Part 1) is amended by the addition of subparagraph (7), which, as amended, reads as follows:

Sec. 1.1012–1 Basis of property.

* * * * * * *

(c) *Sale of stock.* * * *

(7) *Book-entry Treasury securities.*

(i) In applying the provisions of subparagraph (3)(i)(*b*) of this paragraph in the case of a sale or transfer of a book-entry Treasury security which is made pursuant to a written instruction by the seller or transferor, the serially-numbered advice of transaction prescribed by the Fiscal Service of the Department of the Treasury and furnished by a Reserve Bank shall constitute confirmation as required by such subparagraph.

(ii) For purposes of this subparagraph:

(*a*) The term "book-entry Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act (31 U.S.C. 774(2)), as amended, in the form of an entry made as prescribed in 31 CFR Part 306, Subpart O, on the records of a Reserve Bank which is deposited in an account with a Reserve Bank (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (2) as collateral pledged to the United States under Treasury Department Circular No. 92 or 176, both as revised and amended, (3) by a member bank of the Federal Reserve System for its sole account for safekeeping by a Reserve Bank in its individual capacity, (4) in lieu of a surety or sureties upon the bond required by section 61 of the Bankruptcy Act, as amended (11 U.S.C. 101), of a banking institution designated by a judge of one of the several courts of bankruptcy under such section as a depository for the moneys of a bankrupt's estate, (5) pursuant to 6 U.S.C. 15, in lieu of a surety or sureties required in connection with any recognizance, stipulation, bond, guaranty, or undertaking which must be furnished under any law of the United States or regulations made pursuant thereto, (6) by a banking institution, pursuant to a State or local law, to secure the deposit in such banking institution of public funds by a State, municipality, or other political subdivision, (7) by a State bank or trust company or a national bank, pursuant to a State or local law, to secure the faithful performance of trust or other fiduciary obligations by such State bank or trust company or na-

tional bank, or (8) to secure funds which are deposited or held in trust by a State bank or trust company or a national bank and are awaiting investment, but which are used by such State bank or trust company or national bank in the conduct of its business;

(*b*) The term "serially-numbered advice of transaction" means the confirmation (prescribed in 31 CFR 306.116) issued by the Reserve Bank which is identifiable by a unique number and indicates that a particular written instruction to the Reserve Bank with respect to the deposit or withdrawal of a specified book-entry Treasury security (or securities) has been executed; and

(*c*) The term "Reserve Bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of the United States.

* * * * * * *

SECTION 1012—BASIS OF PROPERTY—COST

26 CFR 1.1012-1: Basis of property. Rev. Rul. 67-419

(Also Section 1236; 1.1236-1.)

Section 1.1012—1(c)(7) of the Income Tax Regulations provides a special rule for the identification of a "book-entry Treasury security" (which is a "bond" under section 1.1012-1(c)(6) of the regulations) directed to be disposed of by the owner who holds securities of precisely the same description which were acquired on different dates or at different prices. This special rule permits the "serially-numbered advice of transaction" prescribed by the Fiscal Service of the Department of the Treasury and furnished by a "Reserve Bank" (as those terms are defined in section 1.1012-1(c)(7) of the regulations) to satisfy the requirements of section 1.1012-1(c)(3)(i)(*b*) of the regulations for a written confirmation if made pursuant to a written instruction by the seller or transferor. In such case, if the written instruction identifies the book-entry Treasury security to be sold either by purchase date and cost, or by reference to the serially-numbered advice of transaction relating to the acquisition, and a copy thereof is associated with the serially-numbered advice of transaction received from the Reserve Bank upon disposition, the identification requirement of section 1.1012-1(c)(3)(i) of the regulations shall be considered satisfied. Compare Rev. Rul. 61-97, C.B. 1961-1, 394, which provides a rule of identification in the circumstances described therein. Where the identification requirements of section 1.1012-1(c)(3)(i) of the regulations are satisfied in the manner provided for above, the rule stated in the first sentence of section 1.1012-1(c)(1) of the regulations will not be applied.

For the purpose of determining when a security is clearly identified in the records of a dealer in securities as a security held for investment within the meaning of section 1236 of the Internal Revenue Code of 1954, section 1.1236-1(d)(1) of the regulations provides that an investment security is clearly identified where there is an accounting separation of the security from other securities, as by making appropriate entries in the dealer's books of account to distinguish it from inventories and to designate it as an investment, and by (i) indicating with such entries the individual serial number of, or other characteristic symbol imprinted upon, the individual security, or (ii) adopting any other method of identification satisfactory to the Commissioner.

Using the definitions found in section 1.1012-1(c)(7) of the regulations whereever applicable here, the identification of a particular book-entry Treasury security in the dealer's books of account by reference to the serially-numbered advice of transaction furnished by the Reserve Bank upon the acquisition of such security is a method of identification satisfactory to the Commissioner under section 1.1236-1(d)(1)(ii) of the regulations.

* * * * * * *

(T.D. 7015)

Rev. Rul. 69-416

Treasury Decision 7015, published in the Federal Register dated June 20, 1969, amends section 1.1012-1(c)(7)(ii)(*a*) of the Income Tax Regulations to expand the types of transactions to which the "book-entry Treasury security" rules contained in the regulations under section 1012 of the Internal Revenue

Code of 1954 are applicable. These identification rules are used in certain circumstances to determine the basis and holding period of book-entry Treasury securities upon their sale or transfer.

Revenue Ruling 67–419, C.B. 1967–2, 265, specifies the information to be contained in a written instruction to sell or transfer a book-entry Treasury security in order that a "serially-numbered advice of transaction" will satisfy the "written confirmation" requirements of section 1.1012–1(c)(3)(i)(*b*) of the regulations. In addition, Revenue Ruling 67–419 states that for purposes of section 1236 of the Code and the regulations thereunder (relating to the identification of securities held by a dealer for investment), the identification of a particular book-entry Treasury security in the dealer's books of account by reference to the "serially-numbered advice of transaction" furnished by the "Reserve Bank" (as those terms are defined in section 1.1012–1(c)(7) of the regulations) upon the acquisition of such security is a satisfactory method of identification.

Revenue Ruling 67–419 is hereby amplified to be made applicable to transactions to which the book-entry Treasury security rules have been extended by the amendment of section 1.1012–1(c)(7)(ii)(*a*) of the regulations.

Exhibit 4.—Third supplement, December 12, 1968, of Department Circular No. 653, offering of United States savings bonds, Series E

TREASURY DEPARTMENT,
Washington, December 12, 1968.

Table 54, showing the investment yields to maturity for Series E savings bonds with issue dates June 1 through November 1, 1961, which is a part of Department Circular No. 653, Seventh Revision, dated March 18, 1966, as amended (31 CFR Part 316), is hereby supplemented by addition of the redemption values and investment yields for the extended maturity period, as set forth on the following page.

JOHN K. CARLOCK,
Fiscal Assistant Secretary of the Treasury.

TABLE 54

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1961

Issue price / Denomination	$18.75 / 25.00	$37.50 / 50.00	$75.00 / 100.00	$150.00 / 200.00	$375.00 / 500.00	$750.00 / 1,000.00	$7,500 / 10,000	Approximate investment yield	
Period after issue date	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of each maturity or extended maturity period to beginning of each half-year period thereafter [1]	(3) On current redemption value from beginning of each half-year period [1] (a) to maturity
								Percent	*Percent*
First ½ year [2] (6/1/61)	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	$7,500	0.00	[3] 3.75
½ to 1 year (12/1/61)	18.91	37.82	75.64	151.28	378.20	756.40	7,564	1.71	[3] 3.89
1 to 1½ years (6/1/62)	19.19	38.38	76.76	153.52	383.80	767.60	7,676	2.33	[3] 3.96
1½ to 2 years (12/1/62)	19.51	39.02	78.04	156.08	390.20	780.40	7,804	2.67	[3] 4.01
2 to 2½ years (6/1/63)	19.90	39.80	79.60	159.20	398.00	796.00	7,960	3.00	[3] 4.01
2½ to 3 years (12/1/63)	20.28	40.56	81.12	162.24	405.60	811.20	8,112	3.16	[3] 4.03
3 to 3½ years (6/1/64)	20.66	41.32	82.64	165.28	413.20	826.40	8,264	3.26	[3] 4.05
3½ to 4 years (12/1/64)	21.07	42.14	84.28	168.56	421.40	842.80	8,428	3.36	[3] 4.06
4 to 4½ years (6/1/65)	21.50	43.00	86.00	172.00	430.00	860.00	8,600	3.45	[3] 4.06
4½ to 5 years (12/1/65)	21.95	43.90	87.80	175.60	439.00	878.00	8,780	3.53	[4] 4.44
5 to 5½ years (6/1/66)	22.41	44.82	89.64	179.28	448.20	896.40	8,964	3.60	[4] 4.49
5½ to 6 years (12/1/66)	22.89	45.78	91.56	183.12	457.80	915.60	9,156	3.66	[4] 4.53
6 to 6½ years (6/1/67)	23.38	46.76	93.52	187.04	467.60	935.20	9,352	3.71	[4] 4.61
6½ to 7 years (12/1/67)	23.91	47.82	95.64	191.28	478.20	956.40	9,564	3.78	[4] 4.64
7 to 7½ years (6/1/68)	24.46	48.92	97.84	195.68	489.20	978.40	9,784	3.83	4.77
7½ years to 7 years and 9 months (12/1/68)	25.02	50.04	100.08	200.16	500.40	1,000.80	10,008	3.88	5.15
MATURITY VALUE (7 years and 9 months from issue date) (3/1/69)	**25.34**	**50.68**	**101.36**	**202.72**	**506.80**	**1,013.60**	**10,136**	**3.92**	----------
Period after maturity data	EXTENDED MATURITY PERIOD								(b) to extended maturity
First ½ year (3/1/69)	$25.34	$50.68	$101.36	$202.72	$506.80	$1,013.60	$10,136	0.00	4.25
½ to 1 year (9/1/69)	25.87	51.74	103.48	206.96	517.40	1,034.80	10,348	4.18	4.25
1 to 1½ years (3/1/70)	26.40	52.80	105.60	211.20	528.00	1,056.00	10,560	4.14	4.26
1½ to 2 years (9/1/70)	26.95	53.90	107.80	215.60	539.00	1,078.00	10,780	4.15	4.27
2 to 2½ years (3/1/71)	27.51	55.02	110.04	220.08	550.20	1,100.40	11,004	4.15	4.27
2½ to 3 years (9/1/71)	28.08	56.16	112.32	224.64	561.60	1,123.20	11,232	4.15	4.28
3 to 3½ years (3/1/72)	28.66	57.32	114.64	229.28	573.20	1,146.40	11,464	4.15	4.29
3½ to 4 years (9/1/72)	29.26	58.52	117.04	234.08	585.20	1,170.40	11,704	4.15	4.30
4 to 4½ years (3/1/73)	29.86	59.72	119.44	238.88	597.20	1,194.40	11,944	4.15	4.32
4½ to 5 years (9/1/73)	30.48	60.96	121.92	243.84	609.60	1,219.20	12,192	4.15	4.33
5 to 5½ years (3/1/74)	31.12	62.24	124.48	248.96	622.40	1,244.80	12,448	4.15	4.34
5½ to 6 years (9/1/74)	31.76	63.52	127.04	254.08	635.20	1,270.40	12,704	4.15	4.37
6 to 6½ years (3/1/75)	32.42	64.84	129.68	259.36	648.40	1,296.80	12,968	4.15	4.40
6½ to 7 years (9/1/75)	33.09	66.18	132.36	264.72	661.80	1,323.60	13,236	4.15	4.43
7 to 7½ years (3/1/76)	33.78	67.56	135.12	270.24	675.60	1,351.20	13,512	4.15	4.48
7½ to 8 years (9/1/76)	34.48	68.96	137.92	275.84	689.60	1,379.20	13,792	4.15	4.55
8 to 8½ years (3/1/77)	35.20	70.40	140.80	281.60	704.00	1,408.00	14.080	4.15	4.64
8½ to 9 years (9/1/77)	35.93	71.86	143.72	287.44	718.60	1,437.20	14,372	4.15	4.80
9 to 9½ years (3/1/78)	36.67	73.34	146.68	293.36	733.40	1,466.80	14,668	4.15	5.14
9½ to 10 years (9/1/78)	37.43	74.86	149.72	299.44	748.60	1,497.20	14,972	4.15	6.14
EXTENDED MATURITY VALUE (10 years from original maturity date)[5] (3/1/79)	**38.58**	**77.16**	**154.32**	**308.64**	**771.60**	**1,543.20**	**15,432**	**[6] 4.25**	----------

[1] 3-month period in the case of the 7½-year to 7-year and 9-month period.
[2] Month, day, and year on which issues of June 1, 1961, enter each period. For subsequent issue months add the appropriate number of months.
[3] Yield from beginning of each period to maturity at maturity value prior to the December 1, 1965, revision.
[4] Yield from beginning of each period to maturity at maturity value prior to the June 1, 1968, revision.
[5] 17 years and 9 months from issue date. Original and extended maturity value improved by the revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity date is 4.11 percent.

Exhibit 5.—Fifth amendment, March 25, 1969, to Department Circular No. 653, Seventh Revision, offering of United States savings bonds, Series E

TREASURY DEPARTMENT,
Washington, March 25, 1969.

Treasury Department Circular No. 653, Seventh Revision, dated March 18, 1966, as revised and amended, and the tables incorporated therein (31 CFR Part 316), are hereby further revised and amended as follows:

Sec. 316.8. *Extended terms and improved yields for outstanding bonds.*

(a) *Optional extension privileges.* * * *

(3) *Bonds with issue dates June 1, 1949, through April 1, 1952.* Owners of Series E bonds with issue dates of June 1, 1949 through April 1, 1952, have the option of retaining their bonds for a second extended maturity period of ten years.

(4) *Bonds with issue dates of May 1, 1952, or thereafter.* Owners of Series E bonds with issue dates of May 1, 1952, or thereafter have the option of retaining their bonds for an extended maturity period of 10 years.[1]

* * * * * * *

(c) *Investment yield for second extended maturity period–bonds with issue dates June 1, 1949, through April 1, 1952.* The investment yield for the second extended maturity period for bonds with issue dates of June 1, 1949, through April 1, 1952, will be 4.25 percent per annum compounded semiannually if the bonds are held to the second extended maturity date.[2] (See tables 20 through 25 in this exhibit.)

JOHN K. CARLOCK,
Fiscal Assistant Secretary of the Treasury.

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[1] See tables 26–54 (1966 Annual Report, pages 228–254) for redemption values and investment yields during extended maturity period for bonds with issue dates of May 1, 1952, through Nov. 1, 1961. See Section 316.8(b) of the Fourth Amendment to this Circular concerning yields during the extended maturity period for bonds with subsequent issue dates.

[2] Under authority of Section 25 of the Second Liberty Bond Act, as amended (73 Stat. 621, 31 U.S.C. 757c–1), the President of the United States on Mar. 20, 1969, found it necessary in the national interest to exceed the maximum investment yield prescribed by Section 22 of the act.

TABLE 20

(For Second Extended Maturity Period)

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1949

Issue price Denomination	$7.50 10.00	$18.75 25.00	$37.50 50.00	$75.00 100.00	$150.00 200.00	$375.00 500.00	$750.00 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of each extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period (a) to second extended maturity
	SECOND EXTENDED MATURITY PERIOD [3]								
								Percent	Percent
First ½ year [1] (6/1/69)	$14.72	$36.80	$73.60	$147.20	$294.40	$736.00	$1,472.00	0.00	4.25
½ to 1 year (12/1/69)	15.02	37.56	75.12	150.24	300.48	751.20	1,502.40	4.13	4.25
1 to 1½ years (6/1/70)	15.34	38.34	76.68	153.36	306.72	766.80	1,533.60	4.14	4.26
1½ to 2 years (12/1/70)	15.66	39.14	78.28	156.56	313.12	782.80	1,565.60	4.15	4.27
2 to 2½ years (6/1/71)	15.98	39.95	79.90	159.80	319.60	799.00	1,598.00	4.15	4.27
2½ to 3 years (12/1/71)	16.31	40.78	81.56	163.12	326.24	815.60	1,631.20	4.15	4.28
3 to 3½ years (6/1/72)	16.65	41.63	83.26	166.52	333.04	832.60	1,665.20	4.15	4.29
3½ to 4 years (12/1/72)	17.00	42.49	84.98	169.96	339.92	849.80	1,699.60	4.15	4.30
4 to 4½ years (6/1/73)	17.35	43.37	86.74	173.48	346.96	867.40	1,734.80	4.15	4.31
4½ to 5 years (12/1/73)	17.71	44.27	88.54	177.08	354.16	885.40	1,770.80	4.15	4.33
5 to 5½ years (6/1/74)	18.08	45.19	90.38	180.76	361.52	903.80	1,807.60	4.15	4.35
5½ to 6 years (12/1/74)	18.45	46.13	92.26	184.52	369.04	922.60	1,845.20	4.15	4.37
6 to 6½ years (6/1/75)	18.83	47.08	94.16	188.32	376.64	941.60	1,883.20	4.15	4.40
6½ to 7 years (12/1/75)	19.22	48.06	96.12	192.24	384.48	961.20	1,922.40	4.15	4.43
7 to 7½ years (6/1/76)	19.62	49.06	98.12	196.24	392.48	981.20	1,962.40	4.15	4.48
7½ to 8 years (12/1/76)	20.03	50.08	100.16	200.32	400.64	1,001.60	2,003.20	4.15	4.54
8 to 8½ years (6/1/77)	20.45	51.12	102.24	204.48	408.96	1,022.40	2,044.80	4.15	4.64
8½ to 9 years (12/1/77)	20.87	52.18	104.36	208.72	417.44	1,043.60	2,087.20	4.15	4.80
9 to 9½ years (6/1/78)	21.30	53.26	106.52	213.04	426.08	1,065.20	2,130.40	4.15	5.13
9½ to 10 years (12/1/78)	21.74	54.36	108.72	217.44	434.88	1,087.20	2,174.40	4.15	6.14
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) [4] (6/1/79)	22.41	56.03	112.06	224.12	448.24	1,120.60	2,241.20	[2] 4.25	------

[1] Month, day, and year on which issues of June 1, 1949, enter each period. For subsequent issue months add the appropriate number of months.

[2] Yield on purchase price from issue date to second extended maturity date is 3.68 percent.

[3] Redemption values during second extended maturity period raised to reflect improvement at first extended maturity. Second extended maturity value improved to provide an investment yield of approximately 4.25 percent from first extended maturity.

[4] 30 years from issue date.

TABLE 21

(For Second Extended Maturity Period)

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1949, THROUGH MAY 1, 1950

Issue price	$7.50	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield	
Denomination	10.00	25.00	50.00	100.00	200.00	500.00	1,000.00		
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) On the redemption value at start of each extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period (a) to second extended maturity
	SECOND EXTENDED MATURITY PERIOD [3]								
								Percent	*Percent*
First ½ year [1] (12/1/69)	$14.80	$37.00	$74.00	$148.00	$296.00	$740.00	$1,480.00	0.00	4.25
½ to 1 year (6/1/70)	15.11	37.77	75.54	151.08	302.16	755.40	1,510.80	4.16	4.25
1 to 1½ years (12/1/70)	15.42	38.55	77.10	154.20	308.40	771.00	1,542.00	4.15	4.26
1½ to 2 years (6/1/71)	15.74	39.35	78.70	157.40	314.80	787.00	1,574.00	4.15	4.27
2 to 2½ years (12/1/71)	16.07	40.17	80.34	160.68	321.36	803.40	1,606.80	4.15	4.27
2½ to 3 years (6/1/72)	16.40	41.00	82.00	164.00	328.00	820.00	1,640.00	4.15	4.28
3 to 3½ years (12/1/72)	16.74	41.85	83.70	167.40	334.80	837.00	1,674.00	4.15	4.29
3½ to 4 years (6/1/73)	17.09	42.72	85.44	170.88	341.76	854.40	1,708.80	4.15	4.30
4 to 4½ years (12/1/73)	17.44	43.61	87.22	174.44	348.88	872.20	1,744.40	4.15	4.31
4½ to 5 years (6/1/74)	17.80	44.51	89.02	178.04	356.08	890.20	1,780.40	4.15	4.33
5 to 5½ years (12/1/74)	18.18	45.44	90.88	181.76	363.52	908.80	1,817.60	4.15	4.35
5½ to 6 years (6/1/75)	18.55	46.38	92.76	185.52	371.04	927.60	1,855.20	4.15	4.37
6 to 6½ years (12/1/75)	18.94	47.34	94.68	189.36	378.72	946.80	1,893.60	4.15	4.40
6½ to 7 years (6/1/76)	19.33	48.32	96.64	193.28	386.56	966.40	1,932.80	4.15	4.44
7 to 7½ years (12/1/76)	19.73	49.33	98.66	197.32	394.64	986.60	1,973.20	4.15	4.48
7½ to 8 years (6/1/77)	20.14	50.35	100.70	201.40	402.80	1,007.00	2,014.00	4.15	4.55
8 to 8½ years (12/1/77)	20.56	51.39	102.78	205.56	411.12	1,027.80	2,055.60	4.15	4.65
8½ to 9 years (6/1/78)	20.98	52.46	104.92	209.84	419.68	1,049.20	2,098.40	4.15	4.81
9 to 9½ years (12/1/78)	21.42	53.55	107.10	214.20	428.40	1,071.00	2,142.00	4.15	5.14
9½ to 10 years (6/1/79)	21.86	54.66	109.32	218.64	437.28	1,093.20	2,186.40	4.15	6.15
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date)[4] (12/1/79)	22.54	56.34	112.68	225.36	450.72	1,126.80	2,253.60	[2] 4.25	

[1] Month, day, and year on which issues of Dec. 1, 1949, enter each period. For subsequent issue months add the appropriate number of months.

[2] Yield on purchase price from issue date to second extended maturity date is 3.70 percent.

[3] Redemption values during second extended maturity period raised to reflect improvement at first extended maturity. Second extended maturity value improved to provide an investment yield of approximately 4.25 percent from first extended maturity.

[4] 30 years from issue date.

TABLE 22

(For Second Extended Maturity Period)

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1950

Issue price / Denomination	$18.75 / 25.00	$37.50 / 50.00	$75.00 / 100.00	$150.00 / 200.00	$375.00 / 500.00	$750.00 / 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the redemption value at start of each extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period (a) to second extended maturity
	SECOND EXTENDED MATURITY PERIOD [3]							
							Percent	*Percent*
First ½ year [1](6/1/70)	$37.20	$74.40	$148.80	$297.60	$744.00	$1,488.00	0.00	4.25
½ to 1 year (12/1/70)	37.97	75.94	151.88	303.76	759.40	1,518.80	4.14	4.25
1 to 1½ years (6/1/71)	38.76	77.52	155.04	310.08	775.20	1,550.40	4.15	4.26
1½ to 2 years (12/1/71)	39.56	79.12	158.24	316.48	791.20	1,582.40	4.14	4.27
2 to 2½ years (6/1/72)	40.39	80.78	161.56	323.12	807.80	1,615.60	4.16	4.27
2½ to 3 years (12/1/72)	41.22	82.44	164.88	329.76	824.40	1,648.80	4.15	4.28
3 to 3½ years (6/1/73)	42.08	84.16	168.32	336.64	841.60	1,683.20	4.15	4.29
3½ to 4 years (12/1/73)	42.95	85.90	171.80	343.60	859.00	1,718.00	4.15	4.30
4 to 4½ years (6/1/74)	43.84	87.68	175.36	350.72	876.80	1,753.60	4.15	4.32
4½ to 5 years (12/1/74)	44.75	89.50	179.00	358.00	895.00	1,790.00	4.15	4.33
5 to 5½ years (6/1/75)	45.68	91.36	182.72	365.44	913.60	1,827.20	4.15	4.35
5½ to 6 years (12/1/75)	46.63	93.26	186.52	373.04	932.60	1,865.20	4.15	4.37
6 to 6½ years (6/1/76)	47.60	95.20	190.40	380.80	952.00	1,904.00	4.15	4.39
6½ to 7 years (12/1/76)	48.58	97.16	194.32	388.64	971.60	1,943.20	4.15	4.43
7 to 7½ years (6/1/77)	49.59	99.18	198.36	396.72	991.80	1,983.60	4.15	4.48
7½ to 8 years (12/1/77)	50.62	101.24	202.48	404.96	1,012.40	2,024.80	4.15	4.55
8 to 8½ years (6/1/78)	51.67	103.34	206.68	413.36	1,033.40	2,066.80	4.15	4.65
8½ to 9 years (12/1/78)	52.74	105.48	210.96	421.92	1,054.80	2,109.60	4.15	4.81
9 to 9½ years (6/1/79)	53.84	107.68	215.36	430.72	1,076.80	2,153.60	4.15	5.13
9½ to 10 years (12/1/79)	54.96	109.92	219.84	439.68	1,099.20	2,198.40	4.15	6.11
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date)[4] (6/1/80)	56.64	113.28	226.56	453.12	1,132.80	2,265.60	[2] 4.25	

[1] Month, day and year on which issues of June 1, 1950, enter each period. For subsequent issue months add the appropriate number of months.

[2] Yield on purchase price from issue date to second extended maturity date is 3.72 perecnt.

[3] Redemption values during second extended maturity period raised to reflect improvement at first extended maturity. Second extended maturity value improved to provide an investment yield of approximately 4.25 percent from first extended maturity.

[4] 30 years from issue date.

TABLE 23

(For Second Extended Maturity Period)

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1950, THROUGH MAY 1, 1951

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield	
Denomination	25.00	50.00	100.00	200.00	500.00	1,000.00		
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown) — SECOND EXTENDED MATURITY PERIOD [3]						(2) On the redemption value at start of each extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period (a) to second extended maturity
							Percent	*Percent*
First ½ year [1] (12/1/70)	$37.40	$74.80	$149.60	$299.20	$748.00	$1,496.00	0.00	4.25
½ to 1 year (6/1/71)	38.18	76.36	152.72	305.44	763.60	1,527.20	4.17	4.25
1 to 1½ years (12/1/71)	38.97	77.94	155.88	311.76	779.40	1,558.80	4.15	4.26
1½ to 2 years (6/1/72)	39.78	79.56	159.12	318.24	795.60	1,591.20	4.16	4.27
2 to 2½ years (12/1/72)	40.60	81.20	162.40	324.80	812.00	1,624.00	4.15	4.28
2½ to 3 years (6/1/73)	41.44	82.88	165.76	331.52	828.80	1,657.60	4.15	4.28
3 to 3½ years (12/1/73)	42.30	84.60	169.20	338.40	846.00	1,692.00	4.15	4.29
3½ to 4 years (6/1/74)	43.18	86.36	172.72	345.44	863.60	1,727.20	4.15	4.30
4 to 4½ years (12/1/74)	44.08	88.16	176.32	351.64	881.60	1,763.20	4.15	4.32
4½ to 5 years (6/1/75)	44.99	89.98	179.96	359.92	899.80	1,799.60	4.15	4.33
5 to 5½ years (12/1/75)	45.93	91.86	183.72	367.44	918.60	1,837.20	4.15	4.35
5½ to 6 years (6/1/76)	46.88	93.76	187.52	375.04	937.60	1,875.20	4.15	4.37
6 to 6½ years (12/1/76)	47.85	95.70	191.40	382.80	957.00	1,914.00	4.15	4.40
6½ to 7 years (6/1/77)	48.85	97.70	195.40	390.80	977.00	1,954.00	4.15	4.43
7 to 7½ years (12/1/77)	49.86	99.72	199.44	398.88	997.20	1,994.40	4.15	4.48
7½ to 8 years (6/1/78)	50.89	101.78	203.56	407.12	1,017.80	2,035.60	4.15	4.55
8 to 8½ years (12/1/78)	51.95	103.90	207.80	415.60	1,039.00	2,078.00	4.15	4.65
8½ to 9 years (6/1/79)	53.03	106.06	212.12	424.24	1,060.60	2,121.20	4.15	4.81
9 to 9½ years (12/1/79)	54.13	108.26	216.52	433.04	1,082.60	2,165.20	4.15	5.14
9½ to 10 years (6/1/80)	55.25	110.50	221.00	442.00	1,105.00	2,210.00	4.15	6.15
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) [4] (12/1/80)	56.95	113.90	227.80	455.60	1,139.00	2,278.00	[2] 4.25	....

[1] Month, day, and year on which issues of Dec. 1, 1950, enter each period. For subsequent issue months add the appropriate number of months.
[2] Yield on purchase price from issue date to second extended maturity date is 3.74 percent.
[3] Redemption values during second extended maturity period raised to reflect improvement at first extended maturity. Second extended maturity value improved to provide an investment yield of approximately 4.25 percent from first extended maturity.
[4] 30 years from issue date.

TABLE 24

(For Second Extended Maturity Period)

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1951

Issue price / Denomination	$18.75 / 25.00	$37.50 / 50.00	$75.00 / 100.00	$150.00 / 200.00	$375.00 / 500.00	$750.00 / 1,000.00	Approximate investment yield	
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown) — SECOND EXTENDED MATURITY PERIOD [3]						(2) On the redemption value at start of each extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period (a) to second extended maturity
							Percent	*Percent*
First ½ year [1] (6/1/71)	$37.60	$75.20	$150.40	$300.80	$752.00	$1,504.00	0.00	4.25
½ to 1 year (12/1/71)	38.38	76.76	153.52	307.04	767.60	1,535.20	4.15	4.25
1 to 1½ years (6/1/72)	39.18	78.36	156.72	313.44	783.60	1,567.20	4.16	4.26
1½ to 2 years (12/1/72)	39.99	79.98	159.96	319.92	799.80	1,599.60	4.15	4.27
2 to 2½ years (6/1/73)	40.82	81.64	163.28	326.56	816.40	1,632.80	4.15	4.27
2½ to 3 years (12/1/73)	41.67	83.34	166.68	333.36	833.40	1,666.80	4.15	4.28
3 to 3½ years (6/1/74)	42.53	85.06	170.12	340.24	850.60	1,701.20	4.15	4.29
3½ to 4 years (12/1/74)	43.41	86.82	173.64	347.28	868.20	1,736.40	4.15	4.30
4 to 4½ years (6/1/75)	44.31	88.62	177.24	354.48	886.20	1,772.40	4.15	4.32
4½ to 5 years (12/1/75)	45.23	90.46	180.92	361.84	904.60	1,809.20	4.15	4.33
5 to 5½ years (6/1/76)	46.17	92.34	184.68	369.36	923.40	1,846.80	4.15	4.35
5½ to 6 years (12/1/76)	47.13	94.26	188.52	377.04	942.60	1,885.20	4.15	4.37
6 to 6½ years (6/1/77)	48.11	96.22	192.44	384.88	962.20	1,924.40	4.15	4.40
6½ to 7 years (12/1/77)	49.11	98.22	196.44	392.88	982.20	1,964.40	4.15	4.43
7 to 7½ years (6/1/78)	50.13	100.26	200.52	401.04	1,002.60	2,005.20	4.15	4.48
7½ to 8 years (12/1/78)	51.17	102.34	204.68	409.36	1,023.40	2,046.80	4.15	4.54
8 to 8½ years (6/1/79)	52.23	104.46	208.92	417.84	1,044.60	2,089.20	4.15	4.64
8½ to 9 years (12/1/79)	53.31	106.62	213.24	426.48	1,066.20	2,132.40	4.15	4.81
9 to 9½ years (6/1/80)	54.42	108.84	217.68	435.36	1,088.40	2,176.80	4.15	5.13
9½ to 10 years (12/1/80)	55.55	111.10	222.20	444.40	1,111.00	2,222.00	4.15	6.12
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) [4] (6/1/81)	57.25	114.50	229.00	458.00	1,145.00	2,290.00	[2] 4.25	

[1] Month, day, and year on which issues of June 1, 1951, enter each period. For subsequent issue months add the appropriate number of months.
[2] Yield on purchase price from issue date to second extended maturity date is 3.76 percent.
[3] Redemption values during second extended maturity period raised to reflect improvement at first extended maturity. Second extended maturity value improved to provide an investment yield of approximately 4.25 percent from first extended maturity.
[4] 30 years from issue date.

TABLE 25

(For Second Extended Maturity Period)

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1951 THROUGH APRIL 1, 1952

Issue price	$18.75	$37.50	$75.00	$150.00	$375.00	$750.00	Approximate investment yield	
Denomination	25.00	50.00	100.00	200.00	500.00	1,000.00		
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) On the redemption value at start of each extended maturity period to the beginning of each half-year period thereafter	(3) On current redemption value from beginning of each half-year period (a) to second extended maturity
	SECOND EXTENDED MATURITY PERIOD [3]							
							Percent	*Percent*
First ½ year [1] (12/1/71)	$37.80	$75.60	$151.20	$302.40	$756.00	$1,512.00	0.00	4.25
½ to 1 year (6/1/72)	38.58	77.16	154.32	308.64	771.60	1,543.20	4.13	4.26
1 to 1½ years (12/1/72)	39.38	78.76	157.52	315.04	787.60	1,575.20	4.14	4.26
1½ to 2 years (6/1/73)	40.20	80.40	160.80	321.60	804.00	1,608.00	4.15	4.27
2 to 2½ years (12/1/73)	41.04	82.08	164.16	328.32	820.80	1,641.60	4.15	4.27
2½ to 3 years (6/1/74)	41.89	83.78	167.56	335.12	837.80	1,675.60	4.15	4.28
3 to 3½ years (12/1/74)	42.76	85.52	171.04	342.08	855.20	1,710.40	4.15	4.29
3½ to 4 years (6/1/75)	43.64	87.28	174.56	349.12	872.80	1,745.60	4.15	4.30
4 to 4½ years (12/1/75)	44.55	89.10	178.20	356.40	891.00	1,782.00	4.15	4.32
4½ to 5 years (6/1/76)	45.47	90.94	181.88	363.76	909.40	1,818.80	4.15	4.33
5 to 5½ years (12/1/76)	46.42	92.84	185.68	371.36	928.40	1,856.80	4.15	4.35
5½ to 6 years (6/1/77)	47.38	94.76	189.52	379.04	947.60	1,895.20	4.15	4.37
6 to 6½ years (12/1/77)	48.36	96.72	193.44	386.88	967.20	1,934.40	4.15	4.40
6½ to 7 years (6/1/78)	49.37	98.74	197.48	394.96	987.40	1,974.80	4.15	4.43
7 to 7½ years (12/1/78)	50.39	100.78	201.56	403.12	1,007.80	2,015.60	4.15	4.48
7½ to 8 years (6/1/79)	51.44	102.88	205.76	411.52	1,028.80	2,057.60	4.15	4.55
8 to 8½ years (12/1/79)	52.51	105.02	210.04	420.08	1,050.20	2,100.40	4.15	4.64
8½ to 9 years (6/1/80)	53.59	107.18	214.36	4 8.72	1,071.80	2,143.60	4.15	4.82
9 to 9½ years (12/1/80)	54.71	109.42	218.84	437.68	1,094.20	2,188.40	4.15	5.14
9½ to 10 years (6/1/81)	55.84	111.68	223.36	446.72	1,116.80	2,233.60	4.15	6.16
SECOND EXTENDED MATURITY VALUE (20 years from original maturity date) [4] (12/1/81)	57.56	115.12	230.24	460.48	1,151.20	2,302.40	[2] 4.25	

[1] Month, day, and year on which issues of December 1, 1951, enter each period. For subsequent issue months add the appropriate number of months.

[2] Yield on purchase price from issue date to second extended maturity date is 3.77 percent.

[3] Redemption values during second extended maturity period raised to reflect improvement at first extended maturity. Second extended maturity value improved to provide an investment yield of approximately 4.25 percent from first extended maturity.

[4] 30 years from issue date.

Exhibit 6.—Second revision, October 25, 1968, of Department Circular No. 750, regulations governing payments by banks and other financial institutions of United States savings bonds and United States savings notes (freedom shares)

TREASURY DEPARTMENT,
Washington, October 25, 1968.

Treasury Department Circular No. 750, Revised, dated June 30, 1945, as amended (31 CFR, Part 321), entitled: "Payments by Banks and Other Financial Institutions in Connection With the Redemption of United States Savings Bonds," is hereby retitled and otherwise amended to include United States Savings Notes (Freedom Shares), and issued as a Second Revision, as follows, effective November 1, 1968.

Subpart A—General Information

Subpart B—Authority to Act

Subpart C—Scope of Authority

Subpart D—Payment

Subpart E—Miscellaneous Provisions

AUTHORITY: The provisions of this Part 321 issued under sec. 22 of the Second Liberty Bond Act, as amended, 49 Stat. 21, as amended; 31 U.S.C. 757c.

Subpart A—General Information

§ 321.0 Applicability of regulations.

The regulations in this part govern payments by banks and other financial institutions of U.S. Savings Bonds and U.S. Savings Notes.

§ 321.1 Definition of terms as used in these regulations.

Unless the context otherwise requires or indicates:

(a) "Bond(s)" or "savings bond(s)" means only U.S. Savings Bonds of Series A, B, C, D, or E presented for cash payment, and Series E and J bonds presented for redemption-exchange for Series H bonds under the provisions of Department Circular No. 1036 as amended (Part 339 of this chapter). Savings Bonds of Series F, G, H, and K, and bonds of Series J ineligible for redemption-exchange under Department Circular No. 1036, as amended, are not included.

(b) "Federal Reserve Bank(s)" or "Bank(s)" means a Federal Reserve Bank or Branch acting as fiscal agent of the United States.

(c) "Note(s)" or "savings note(s)" means a U.S. Savings Note (Freedom Share).

(d) "Owner(s)" means an individual, i.e., a natural person, whose name is inscribed as an owner or co-owner in his own right on a bond or note.

(e) "Paying agent(s)" or "agent(s)" means (1) any eligible financial institution duly qualified pursuant to the provisions of this circular, or any previous revision thereof, to make payments, as herein specified, of U.S. Savings Bonds, and U.S. Savings Notes, and includes branches of such institutions located within the United States, its territories and possessions, the Commonwealth of Puerto Rico and the Canal Zone and (2) banking facilities of such institutions established at military installations of the United States and other places with the specific approval of the Treasury Department.

(f) "Redemption" and "payment" are used interchangeably for payment of a bond or note in accordance with the terms of its offering and the regulations governing said securities, and includes "redemption-exchange," i.e., any authorized redemption of securities for the purpose of applying the proceeds, as provided under the terms of the offering, in payment for other securities offered in exchange.

(g) "Security(ies)" means a U.S. Savings Bond or U.S. Savings Note.

Subpart B—Authority To Act

§ 321.2 Financial institutions authorized to act.

Commercial banks, trust companies, savings banks, savings and loan associations, building and loan associations (including cooperative banks), credit unions, cash depositories, industrial banks, and similar financial institutions which (a) are incorporated under Federal law or under the laws of a State, territory or possession of the United States, or the District of Columbia; (b) in the usual course of business accept, subject to withdrawal, funds for deposit or the purchase of shares; (c) are under the supervision of the banking department or equivalent authority of the jurisdiction in which incorporated; and (d) maintain regular offices for the transaction of their business, are eligible to become paying agents and, subject to the provisions relating to qualification set out in § 321.3, are authorized to make payments in connection with the redemption of savings bonds and savings notes, but only in accordance with the provisions of this circular, and any memorandum of instructions, guides, notices, etc., issued by the Department of the Treasury relating to such authorization.

§ 321.3 Application and qualification.

(a) *Authority to qualify.* Each Federal Reserve Bank, as fiscal agent of the United States, is authorized to qualify hereunder any eligible institution located in its district[1] which possesses adequate authority under its charter to act as paying agent of savings bonds and savings notes.

(b) *New applications.* An institution not previously qualified which desires to act as paying agent of savings bonds and savings notes on or after the effective date of this revision should apply to the Federal Reserve Bank of the district in which it is located on an application-agreement form available from the Bank. No application-agreement will be accepted requesting qualification solely as paying agent either for savings bonds or for savings notes. Each application-agreement filed hereunder shall include the provisions prescribed in section 202 of Executive Order No. 11246, entitled "Equal Employment Opportunity." (42 U.S.C. 2000e note)

(c) *Agents previously qualified.* Any financial institution qualified and acting as a paying agent of savings bonds on the effective date of this revision may continue to so act under its previous qualification, but subject to the terms and conditions hereof. Such agent will not be required to qualify by separate applica-

[1] For the purpose of this circular, eligible institutions in Puerto Rico, the Virgin Islands, and the Canal Zone shall be considered as being within the Second Federal Reserve District and shall make application to the Federal Reserve Bank of New York, and eligible institutions in Guam shall be considered as being within the Twelfth Federal Reserve District and shall make application to the Federal Reserve Bank of San Francisco.

tion-agreement to pay savings notes. If a paying agent of savings bonds redeems savings notes, and transmits the same to the Federal Reserve Bank of its district with a request to receive credit therefor, it shall be presumed thereby that the governing board or committee of such agent had theretofore undertaken appropriate action to authorize such redemptions and had agreed that the terms and conditions of its previous qualification as paying agent for savings bonds shall apply to savings notes as well. The granting of credit for such redemptions by the Bank shall constitute qualification of the agent to pay savings notes.

§ 321.4 Evidence of authority.

No announcement of or reference to an institution's authority to pay savings bonds and savings notes, nor acts purporting to have such authority, except as provided in § 321.3(c), may be made until written notice of qualification has been received from the Federal Reserve Banks, and then only in a form, manner and substance as may be approved by the Treasury Department or by the Bank.

§ 321.5 Paying agent fees and charges.

(a) *Scale of rates and procedures.* Each paying agent shall receive reimbursement for all bonds and notes paid hereunder which are received by a Federal Reserve Bank and forwarded for the agent's account to the Treasury Department during each calendar quarter, according to the following scale:

15 cents each for the first 1,000 securities.
10 cents each for all over 1,000 securities, less any securities returned to the agent because they were ineligible for payment.

The scale of rates shall be applicable separately to the agent and to each of its branches utilized in making payments under this circular, if the securities paid by each are separately scheduled and accounted for.

(b) *No charge to owners.* Paying agents shall not make any charge whatever to owners of savings bonds and savings notes in connection with payments hereunder.

§ 321.6 Termination of qualification.

The Secretary of the Treasury, or his delegate, may authorize a Federal Reserve Bank to terminate, by written notice, at any time and without prior demand or notice, the qualification hereunder of any paying agent in its district. A paying agent, upon notice to the Federal Reserve Bank through which it qualified, and following settlement of its account, may terminate its qualification.

Subpart C—Scope of Authority

§ 321.7 General.

Savings bonds and savings notes are issued only in registered form, are not transferable, may not be hypothecated or used as collateral for a loan, and, except as otherwise specifically provided in the regulations governing them, i.e., Department Circular No. 530, current revision (Part 315 of this Chapter), are payable only to the owner or coowner named on the securities. Payment to a designated beneficiary is not authorized.

§ 321.8 Payment to individual named as owner.

Subject to the terms and conditions appearing on the securities, to the governing regulations, and to the provisions of this circular, an agent may make payment of any savings bonds of Series A, B, C, D, or E, or of any savings note, upon presentation and surrender by the individual whose name is inscribed as the owner or coowner on the security: *Provided*, The individual is known to the agent or establishes his identity in accordance with the Department's instructions and identification guides. (See the Treasury Department's statement to paying agents on identification, dated Dec. 19, 1947.) This authority to make payments will be held to include:

(a) *Change of name by marriage.* Where the name of the owner as inscribed on the security has been changed by marriage and the agent knows or establishes that the presenter and the person whose name appears on the security is one and the same individual. The signature to the request for payment should show

both names, for example, "Miss Mary T. Jones, now by marriage Mrs. Mary J. Smith." An agent is not authorized to pay a security for an owner whose name as inscribed thereon has been changed in any other manner.

(b) *Parent of a minor.* Where the name of the owner inscribed on the security is that of a minor child who is not of sufficient competency and understanding to execute the request for payment and comprehend the nature of such act but upon whose behalf request for payment is made by a parent with whom the child resides: *Provided, however,* The form of registration does not indicate that a guardian or similar representative of the estate of the minor owner has been appointed or is otherwise legally qualified. The parent requesting payment must sign the request for payment in the form, for example, "John A. Jones, on behalf of John C. Jones," and place an endorsement in substantially the following form, which may be typed or imprinted on the back of the security: "I certify that I am the ____________ (father or mother) of John C. Jones and the person with whom he resides. He is ______ years of age and is not of sufficient competency and understanding to sign the request." Such a payment may not be made to any person other than a father or mother.

§ 321.9 Redemption-exchange of Series E and J bonds for Series H bonds.

Subject to the terms and conditions appearing on the bonds, the governing regulations, and the provisions of this part, an agent may accept for redemption-exchange Series E and eligible J bonds under the provisions of Department Circular No. 1036, as amended (Part 339 of this chapter).

§ 321.10 Specific limitations of payment authority.

An agent is not authorized to pay a bond or note:

(a) If presented for payment prior to the end of 2 months from the issue date in the case of a Series E bond, and of 1 year from the issue date in the case of a note (the issue date appears on the upper right-hand portion of the face of the securities). Any payment or advance to an owner before his security is eligible for redemption is not authorized.

(b) If the agent does not know or cannot establish the identity of the person requesting payment as the owner of the security, including the establishment of the identity of a parent requesting payment on behalf of a minor child, as set forth in § 321.8(b). (See the memorandum of instructions issued in conjunction with this circular and the Treasury Department's statement to paying agents on identification, dated Dec. 19, 1947.)

(c) If the owner requesting payment does not sign his name in ink as it is inscribed on the security and show his home or business address. (See, also, § 321.8 (a) and (b).)

(d) If the security bears a material irregularity, for example, an illegible, incomplete, or unauthorized inscription, issue date, or issuing agent's validating stamp impression, or if any essential part thereof appears to be altered, or is mutilated or defaced in such a manner as to create doubt or arouse suspicion.

(e) If the security is registered in the name of an organization or a fiduciary.

(f) If the Treasury Department regulations require the submission of documentary evidence to support the redemption, as in the case of deceased owners, incompetents or minors under legal guardianship, or the change of an owner's name as inscribed on a bond or note for any reason other than marriage.

(g) If the owner named on the security and requesting payment is a minor who, in the opinion of the agent, is not of sufficient competency and understanding to execute the request for payment and comprehend the nature of such act. (See, also, § 321.8(b).)

(h) If it is known to the agent that the owner has been declared, in accordance with law, incompetent to manage his estate.

(i) If partial redemption is requested.

§ 321.11 Forwarding of securities not payable by agent.

Any securities which an agent is not authorized to pay under the provisions of this part should be forwarded for redemption, after certification of the requests for payment, to the Federal Reserve Bank or Branch of the district, or the Office of the Treasurer of the United States, Securities Division, Washington, D.C. 20220. If an agent undertakes to forward such unpaid securities at the request and in behalf of the person entitled to payment, they must be sent

separate and apart from bonds and notes which the agent has paid. Any documentary evidence required to support the redemption should accompany the securities when forwarded to the Federal Reserve Bank.

Subpart D—Payment

§ 321.12 Payment of securities.

(a) *Examination.* Before making payment of a bond or note, the agent shall examine it to determine:

(1) That the security is eligible for payment and is one which the agent is authorized to pay under the provisions of this part, and

(2) That the security does not bear a material irregularity or alteration, and is not mutilated or defaced.

(b) *Identification.* The agent shall determine that the individual presenting the security is the same person whose name is inscribed as owner or coowner thereon. Unless the presenter is a person whose identity is well known to the agent, or is an established customer, he should be asked to furnish satisfactory documentary or personal identification.

(c) *Execution of request.* The agent shall require that the request for payment on the back of the security be executed by the presenter in the presence of one of its officers or authorized employees, and the request shall include the home or business address of the individual making the request on at least one of the securities. Where the request has already been executed when the security is presented, it should ordinarily be reexecuted.

(d) *Certification of request.* Each agent submitting paid bonds and notes shall be understood by such submission to have represented and certified that the identity of the owner or coowner requesting payment has been duly established. Therefore, an agent will not be required in the case of any security which it pays to complete the certification form at the end of the request for payment, nor determine the authenticity of any certification which may appear thereon at the time it is presented for payment.

§ 321.13 Determination of redemption values and payment procedure.

The redemption value of a security is determined according to the period of time that it has been outstanding, and the table of redemption values applicable thereto. After establishing such value for each security presented, the agent shall place on the face thereof the word "PAID," the amount and date of actual payment and the name, location, and code number assigned to the agent by the Federal Reserve Bank. The affixing of such data shall constitute a certification by the paying agent that the security was redeemed in accordance with this circular, and that the proceeds of redemption were paid to the presenter. Payment shall be made in cash, a credit to the presenter's checking, savings or share account with the agent, or a check or similar instrument payable to his order.

§ 321.14 Accounting for paid securities.

The paying agent shall forward all paid securities to the Federal Reserve Bank of the district in accordance with latter's instructions. Upon receipt of the paid securities, the Federal Reserve Bank shall make immediate settlement with the paying agent for the total amount of payments made thereon, except that such settlement shall be subject to adjustment if any discrepancies are discovered at a later date.

§ 321.15 Losses resulting from payments.

If a loss shall result from a payment made in connection with the redemption of any security hereunder, the paying agent involved shall have a full and complete opportunity to present all of the facts pertaining thereto. Determination of losses shall be made pursuant to section 22(i) of the Second Liberty Bond Act, as amended (Title 31, United States Code, sec. 757c(i).)

Subpart E—Miscellaneous Provisions

§ 321.16 Fiscal agents.

The Federal Reserve Banks and Branches, as fiscal agents of the United States, are authorized to perform such services as may be requested by the Secretary of the Treasury in connection with this part.

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§ 321.17 Preservation of rights.

Nothing contained in the regulations in this part shall limit or restrict any existing rights which holders of savings bonds and savings notes may have acquired under the circulars offering such securities for sale and the regulations prescribed therefor.

§ 321.18 Supplements, amendments, etc.

The Secretary of the Treasury may at any time or from time to time revise, supplement, amend, or withdraw, in whole or in part, the provisions of this part, or of any revisions, supplements, or amendments thereto.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 7.—Third revision, October 25, 1968, of Department Circular No. 751, regulations governing manner of accounting for losses resulting from the redemption of United States savings bonds and United States savings notes (freedom shares)

TREASURY DEPARTMENT,
Washington, October 25, 1968.

Treasury Department Circular No. 751, Second Revision, dated August 1, 1947 (31 CFR Part 322), entitled: "Replacement out of the Fund Established by the Government Losses in Shipment Act, as Amended, of Any Losses Resulting from Payments Made in Connection with the Redemption of United States Savings Bonds and Armed Forces Leave Bonds," is hereby retitled and otherwise amended to delete reference therein to Armed Forces Leave Bonds and to include U.S. Savings Notes (Freedom Shares), and issued as a Third Revision, as follows:

AUTHORITY: The provisions of this Part 322 issued under sec. 22 of the Second Liberty Bond Act, as amended, 49 Stat. 21, as amended; 31 U.S.C. 757c.

Subpart A—General Information

§ 322.0 Applicability of regulations.

The regulations in this part govern the manner of accounting for losses to the United States of America resulting from the redemption of U.S. Savings Bonds and U.S. Savings Notes (Freedom Shares), (a) by any bank or other financial institution duly qualified as a paying agent under Treasury Department Circular No. 750, or any revision thereof (Part 321 of this chapter), (b) by the Treasurer of the United States, and (c) by any Federal Reserve Bank or Branch, as fiscal agent of the United States.

Subpart B—Report of Loss

§ 322.1 Report of erroneous payment.

(a) *By qualified paying agent.* Upon discovery of an erroneous or unauthorized payment by a qualified paying agent, immediate report thereof should be made to the Federal Reserve Bank of the district. The payments so reported to, or otherwise discovered by, a Federal Reserve Bank, shall be adjusted, so far as possible, between the Federal Reserve Bank and the paying agent concerned. If no such adjustment is possible, or if the error in payment is discovered after the account of the Treasurer of the United States has been charged, an immediate report thereof shall be made by the Federal Reserve Bank to the Bureau of the Public Debt, Division of Loans and Currency Branch, 536 South Clark Street, Chicago, Ill. 60605.

(b) *By Treasurer of the United States and Federal Reserve Bank or Branch.* Upon discovery of an erroneous or unauthorized payment by the Office of the Treasurer of the United States or by a Federal Reserve Bank or Branch, immediate report thereof shall be made by such agency to the Bureau of the Public Debt, Division of Loans and Currency Branch, 536 South Clark Street, Chicago, Ill. 60605.

Subpart C—Procedure for Investigation of Loss

§ 322.2 Action by Treasury.

Following receipt of the report of an erroneous payment, or upon discovery from its records that an erroneous payment has occurred, the Department of the Treasury shall notify, unless such action is deemed unnecessary, the agency through which the redemption was effected, identifying the securities, and furnishing appropriate details and instructions. The Department shall determine whether or not adjustment may be effected with the persons involved in the erroneous payment.

§ 322.3 Use of United States Secret Service.

The Department of the Treasury, and, in appropriate cases, Federal Reserve Banks, as fiscal agents of the United States, may request the U.S. Secret Service to investigate losses and to assist in the recovery of improper payments. The Treasurer of the United States, the Federal Reserve Banks, and qualified paying agents shall be expected to cooperate to the fullest extent therewith.

§ 322.4 Opportunity to present evidence.

The paying agent, the Treasurer of the United States, or the Federal Reserve Bank or Branch, involved in any erroneous or unauthorized payment shall be given during the course of the investigation, or thereafter prior to a determination of final loss, every opportunity to present the full facts relating to the payment.

Subpart D—Determination of Loss

§ 322.5 Advice of final loss.

Upon completion of the investigation, and after consideration of the results thereof, the Department of the Treasury shall advise the agency through which the payment occurred:

(a) That no final loss to the United States has occurred, and, accordingly, that it is relieved from liability therefor, or that no claim for reimbursement shall be made unless and until a loss has been sustained; or

(b) That while a final loss to the United States has occurred, it is not required to make reimbursement therefor as the Secretary of the Treasury, or his delegate, has determined that such loss resulted from no fault or negligence on the part of such agency; or

(c) That a final loss to the United States has occurred, and that as the Secretary of the Treasury, or his delegate, has been unable to make an affirmative finding that such loss resulted from no fault or negligence on part of such agency, reimbursement must be promptly made, except where credit for the payment had not theretofore been extended.

Subpart E—Certification of Signatures

§ 322.6 Certification of signatures.

The regulations in this part shall, to the extent appropriate, apply to losses resulting from payments made in reliance on erroneous certifications of signatures to any requests for payment of savings bonds and savings notes by an officer or designated employee of any financial institution or of the Postal Service authorized to certify such requests.

Subpart F—Replacement of Losses Out of Fund

§ 322.7 Replacement and recovery in connection with losses.

Where a final loss has resulted from the redemption of a savings bond or savings note, and no reimbursement therefor has been or will be made, such loss shall be subject to immediate replacement out of the fund established by the Government Losses in Shipment Act, as amended. Any recovery or repayment thereafter received on account of such loss shall be credited to the fund.

Subpart G—Miscellaneous

§ 322.8 Supplements, amendments, etc.

The Secretary of the Treasury may at any time, or from time to time, supplement, amend, or withdraw, in whole or in part, the provisions of this circular, or of any amendments or supplements thereto, information as to which will be furnished promptly to the Federal Reserve Banks and through such Banks, or directly, to eligible financial institutions qualified to make payments of savings bonds and savings notes under the provisions of Treasury Department Circular No. 750, Second Revision (Part 321 of this chapter).

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 8.—Third revision, December 10, 1968, of Department Circular No. 888, regulations governing payment under special endorsement of United States savings bonds and United States savings notes (freedom shares)

TREASURY DEPARTMENT,
Washington, December 10, 1968.

Treasury Department Circular No. 888, Second Revision, dated April 7, 1964 (31 CFR, Part 330), entitled: "Regulations Governing the Special Endorsement of United States Savings Bonds of Any Series and the Payment of Matured Series F, G, J, and K Bonds by Eligible Paying Agents," is hereby retitled and otherwise amended to include U.S. Savings Notes (Freedom Shares), and issued as a Third Revision, as follows:

Sec.

AUTHORITY: The provisions of this Part 330 issued under secs. 330.0 to 330.11 issued under authority of sec. 22 of the Second Liberty Bond Act, as amended, 49 Stat. 21, as amended; 31 U.S.C. 757c.

§ 330.0 Purpose of regulations.

These regulations in this Part prescribe a procedure whereby qualified paying agents may specially endorse U.S. Savings Bonds of certain classes, and U.S. Savings Notes (Freedom Shares), with or without the owners' signatures to the requests for payment, and pay the bonds and notes so endorsed, or forward them to the Federal Reserve Bank or Branch servicing their accounts for payment or for any authorized exchange. § 330.2 describes the eligibility of various classes of bonds for processing under the procedure provided in this circular, and § 330.7 sets out which of these classes may be paid by such agents and which should be forwarded to a Federal Reserve Bank or Branch. Under no circumstances shall the provisions of this part be used to give effect to a transfer, hypothecation, or pledge of a bond or note or to permit payment to any person other than the owner or coowner. Violation of these prohibitions will be cause for the withdrawal of an agent's privilege to process any bonds and notes under this part.

§ 330.1 Agents eligible to process bonds and notes.

(a) *New applications.* Any institution qualified as a paying agent of U.S. Savings Bonds and U.S. Savings Notes under the provisions of Department Circular No. 750, as revised, may establish its eligibility to employ the procedure authorized by this circular upon application on Treasury Department Form PD 3902 to the Federal Reserve Bank of the District in which it is located. This form provides a certification that by duly executed resolution of its governing board or committee the institution has been authorized to apply for the privilege of processing and paying bonds and notes in accordance with the provisions and conditions of Department Circular No. 888, including all supplements, amendments, and revisions thereof, and any instructions issued in connection therewith. If the application is approved, the Federal Reserve Bank will so notify the institution on Treasury Department Form PD 3903. The Secretary of the Treasury reserves the right to withdraw from any institution at any time the authority granted thereto under the regulations in this part.

(b) *Agents previously qualified.* Any financial institution qualified and acting under any previous revision of this part will not be required to qualify separately to process savings notes. If such institution affixes its special endorsement on a savings note, it shall be presumed that its governing board or committee had undertaken appropriate action to authorize extension to savings notes of the terms and conditions of its previous qualification to process savings bonds under this part. The granting of credit by the Federal Reserve Bank or Branch, acting as fiscal agent of the United States, for the redemption of any such savings notes pursuant to special endorsement shall constitute qualification of the agent.

§ 330.2 Securities eligible for processing.

The procedure provided in the regulations in this part may be employed in connection with the redemption or exchange (where authorized) of any savings bond, or the redemption of any savings note, upon the request of its registered owner or either coowner. The term "owner" is defined to include individuals, and where such registration is authorized, incorporated and unincorporated bodies, executors, administrators, and other fiduciaries named on a bond or note. This procedure does not apply, however, to cases where payment (or exchange in the case of bonds) is requested by a parent in behalf of a minor named on a security as owner. Also, it does not apply to requests made by surviving beneficiaries, or to any cases requiring a death certificate or other documentary evidence.

§ 330.3 Guaranty given to the United States.

A paying agent, by the act of paying or presenting to the Federal Reserve Bank or Branch for payment a bond or note, or for exchange a bond, on which it has affixed the special endorsement, shall be deemed thereby to have (a) unconditionally guaranteed to the United States the validity of the transaction, including the identification of the owner and the disposition of the proceeds or the new bonds, as the case may be, in accordance with his instructions, (b) assumed complete and unconditional liability to the United States for any loss which may be incurred by the United States as a result of the transaction, and (c) unconditionally agreed to make prompt reimbursement for the amount of any such loss upon request of the Department of the Treasury.

§ 330.4 Evidence of owner's authorization to agent.

By the act of paying or presenting to the Federal Reserve Bank or Branch a security on which it has affixed the special endorsement described in § 330.5, the paying agent represents to the United States that it has obtained adequate instructions from the owner with respect to payment of the bond or note, and disposition of its proceeds, or exchange of the bond, as the case may be. To support this representation, agents should maintain such records as may be necessary to establish the receipt of such instructions, as well as records establishing compliance therewith.

§ 330.5 Endorsement of securities.

Each security processed under these regulations in this part shall bear the following endorsement:

> Request by owner and validity of transaction guaranteed in accordance with T.D. Circular No. 888, as revised.
>
> (Name and location of agent)

This endorsement must be placed on the back of the bond or note in the space provided for the owner to request payment. (See § 330.6 for additional instructions covering securities inscribed in coownership form.) The endorsement stamp must be legibly impressed in black or other dark-colored ink. The Federal Reserve Bank of the District will furnish rubber stamps for impressing the above endorsement or, in lieu thereof, will approve designs for suitable stamps to be obtained by paying agents. Requests for endorsement stamps to be furnished or approved by the Federal Reserve Bank shall be made in writing by an officer of the institution. Stamps heretofore in use may continue to be utilized.
§ 330.7 sets out which of these classes may be paid by such agents and which should be forwarded to a Federal Reserve Bank or Branch. Under no circumstances shall the provisions of this part be used to give effect to a transfer, hypothecation, or pledge of a bond or note, or to permit payment to any person other than the owner or coowner. Violation of these prohibitions will be cause for the withdrawal of an agent's privilege to process any bonds and notes under this part.

§ 330.6 Securities in coownership form.

In addition to the endorsement prescribed in § 330.5. the paying agent shall, in the case of bonds and notes registered in coownership form, indicate which coowner requested payment or exchange. This should be done by encircling in black or other dark-colored ink the name of such coowner (or both coowners, if a joint request for payment or exchange is made) as it appears in the inscription on the face of the securities.

§ 330.7 Payment or exchange.

(a) *By paying agents*—(1) *Payment of Series A–E bonds, inclusive, and savings notes for cash.* Bonds of Series A to E, inclusive, and savings notes, on which it has affixed the special endorsement may be paid by a qualified paying agent pursuant to the authority and subject, in all other respects, to the provisions and conditions of Department Circular No. 750, as revised, and the instructions issued pursuant thereto. Bonds and notes so paid will be combined with other Series A to E bonds and notes paid under that circular and forwarded to the Federal Reserve Bank or Branch servicing the agent's account.

(2) *Payment of matured Series F, G, J, and K bonds.* Matured savings bonds of Series F, G, J, and K on which it has affixed the special endorsement may be paid by a qualified paying agent, provided they are of a class eligible for this procedure under § 330.2. Such payments, fees for which will not be paid to the agents, shall be made in accordance with the following provisions:

(i) A Series F or J bond shall be paid at its face value.

(ii) A Series G or K bond shall be paid at its face value, together with the final interest due thereon, as shown below:

Authorized denominations	Amount payable (face value plus final interest)	
	Series G	Series K
$100 (Series G only)	$101.25	
$500	506.25	$506.90
$1,000	1,012.50	1,013.80
$5,000	5,062.50	5,069.00
$10,000	10,125.00	10,138.00
$100,000 (Series K only)		101,380.00

(iii) Each bond shall bear on its face, in the upper right portion, a payment stamp setting forth the word "PAID" and the amount of the payment (including the final interest on Series G and K bonds), the date of payment (month, day, year), and the name and location of the paying agent including the ABA transit number or other identifying code approved or assigned by the Federal Reserve Bank of the District (the payment stamp prescribed for use under Department Circular No. 750, as revised, may be used).

(iv) Paying agents shall be subject to such other instructions governing these payments as may be issued by the Federal Reserve Bank of the District.

Immediate settlement, subject to adjustment, will be made with the paying agent by the Federal Reserve Bank or Branch servicing its account for the total amount of the paid bonds submitted at any one time.

(3) *Payment of Series E and J bonds on redemption-exchange for Series H bonds.* All outstanding Series E bonds, and Series J bonds received not later than 6 months from the month of maturity, presented to a paying agent for redemption-exchange under the provisions of Department Circular No. 1036, as amended, on which it has affixed the special endorsement, may be paid pursuant to the authority and subject, in all other respects, to the provisions and conditions of Department Circular No. 750, as revised, and the instructions issued pursuant thereto.

(b) *By Federal Reserve Banks*—(1) *General.* All securities forwarded by an agent to a Federal Reserve Bank or Branch for payment or exchange under this part must be accompanied by appropriate instructions governing the transaction and the disposition of the redemption checks or the new bonds, as the case may be. The bonds and notes must be kept separate from any others the agent has paid, and they must be presented in accordance with such instructions as may be issued by the Federal Reserve Bank of the District.

(2) *Payment.* The Federal Reserve Bank or Branch servicing an agent's account shall pay securities which it receives from such agent on which the latter has affixed its special endorsement under the provisions and conditions of this part. Such securities are (i) those not payable under paragraph (a) of this section, or (ii) those the agent does not elect to pay, although eligible for payment thereunder.

(3) *Exchange.* The Federal Reserve Bank or Branch shall pay Series E and J bonds presented for redemption-exchange which an agent elects to process, but not to pay, under paragraph (a) (3) of this section, as well as any savings bonds submitted for exchange, in whole or in part, pursuant to an authorized exchange offering and processed by special endorsement under this part.

§ 330.8 Functions of Federal Reserve Banks.

The Federal Reserve Banks, as fiscal agents of the United States, are authorized and directed to perform such duties, and prepare and issue such instructions, as may be necessary for the fulfillment of the purpose and requirements of this part. The Federal Reserve Banks may utilize any or all of their branches in the performance of these duties.

§ 330.9 Modification of other circulars.

The provisions of these regulations in this part shall be considered as amendatory of, and supplementary to, Department Circulars Nos. 530, 653, 654, 750, 751, 885, 905, and 906, and any revisions thereof, and those circulars are hereby modified where necessary to accord with the provisions hereof.

§ 330.10 Other circulars generally applicable.

Except as provided in these regulations in this part, the circulars referred to in the preceding section will continue to be generally applicable.

§ 330.11 Supplements, amendments or revisions.

The Secretary of the Treasury may at any time, or from time to time, supplement, amend or revise the terms of these regulations in this part.

Memorandum of Instructions Issued in Conjunction With Department Circular No. 888, Third Revision

FISCAL SERVICE, BUREAU OF THE PUBLIC DEBT

The Department of the Treasury,
Office of the Secretary,
Washington, D.C.

DECEMBER 2, 1968.

1. *General.*—(a) *Purpose.* This memorandum has been prepared for the guidance of paying agents qualified under Department Circular No. 888, Third Revision, the regulations governing the payment by special endorsement of U.S. Savings Bonds and U.S. Savings Notes (Freedom Shares). It both explains and supplements the circular, and acquaints paying agents with the objectives of the special endorsement procedure.

(b) *Liability assumed by agents using special endorsement.* An eligible agent which pays or processes securities by special endorsement, undertakes thereby, under section 330.3 of Department Circular No. 888, Third Revision, to guarantee the owner's request and the validity of the transaction.

(c) *Options available to agents.* Each paying agent authorized under Department Circular No. 750, as revised, to redeem savings bonds and notes has the option of deciding whether or not to apply for qualification to use the special endorsement procedure, and, even after being qualified, whether or not to exercise its authority in any given case.

2. *Scope of regulations.* Department Circular No. 888, Third Revision, prescribes a special endorsement which a qualified paying agent may place upon any series of savings bonds and upon notes, except as otherwise provided in paragraph 4 hereof, so that regardless of whether or not the request for payment is signed by the owner, the paying agent may pay them or present them to a Federal Reserve Bank for payment or exchange.

3. *Meaning of terms.* For the purpose of this memorandum (unless otherwise indicated either specifically or by context) the terms:

(i) "Bond(s)" and "note(s)" mean U.S. Savings Bond of any series, and U.S. Savings Note (Freedom Share), respectively, referred to collectively as "securities", which an "eligible agent" is permitted to "specially endorse".

(ii) "Eligible agent(s)" or "agent(s)" means any paying agent of savings bonds which, upon application, has been duly qualified by the Federal Reserve Bank of its district to process savings bonds and notes by special endorsement under the provisions of Department Circular No. 888, as revised.

(iii) "Special endorsement" means the endorsement prescribed in § 330.5 of Department Circular No. 888, Third Revision.

(iv) "Specially endorse" means the affixing by an eligible agent of the special endorsement to bonds which are to be paid or exchanged, or to notes which are to be paid.

(v) "Exchange" refers to the Series H bond exchange offering.

(vi) "Federal Reserve Bank" refers to the Federal Reserve Bank or Branch servicing the agent's account.

4. *Limitations or qualifications on use of special endorsements.* An eligible agent may, at its discretion, specially endorse a bond which the owner has

requested the agent to pay or exchange or a note for which payment is requested, subject to the following limitations or qualifications:

(i) A security may not be specially endorsed if documentary evidence is required in support of its request for payment. (Subparts O and P of Department Circular No. 530, current revision, provide information as to whether documentary evidence is required to support the request for payment of bonds registered in the name of a fiduciary, private organization (corporation, association, partnership, etc.), or a governmental agency, unit or officer).

(ii) Documentary evidence is not required where the owner's name has been changed by reason of marriage.

(iii) No bond or note may be specially endorsed upon a parent's request in behalf of a minor child named on the security as the owner.

(iv) A bond inscribed in the name of a bank (in its fiduciary capacity, e.g., trustee, guardian, etc.) which has changed its name, status or designation by merger, consolidation or otherwise may be paid upon verification that approved evidence is on file with the Treasury, and upon advice that such bond is eligible for payment by special endorsement. Such verification and advice will be furnished upon request by the Federal Reserve Bank of the district.

(v) Notwithstanding the provisions of Department Circular No. 888, Third Revision, a bond which requires documentary evidence to support payment may be specially endorsed and presented for exchange without such evidence if the bond is to be exchanged in the full amount for another security with the identical registration.

5. *Instructions from owners.*—(a) *Receipt.* The Department of the Treasury does not prescribe the form or type of instruction, if any, which an agent obtains from each owner in order to process securities belonging to him by special endorsement. As the agent's liability to the United States for any loss resulting from an erroneous payment would be strictly based on its endorsement, the securing of adequate instructions would be a matter entirely between the agent and its customer. For its protection, agents are cautioned about accepting any authorization by an owner or coowner with respect to a security in beneficiary or coownership form which provides for future execution, rather than for immediate payment or exchange, as such authorization generally expires upon the death of the person giving it.

(b) *Retention of evidence.* Where agents elect to make notations on the back of a security to serve as the record of a transaction in which the special endorsement procedure is used the Department will undertake to produce, upon request, such security, or a photocopy thereof, but it will not assume responsibility for the adequacy of any such notations, the legibility of any photocopy, or for failure to produce the security or photocopy in any particular case where the Department's records have become lost, stolen, or destroyed.

6. *Special endorsement of securities.*—(a) *Special endorsement stamp.* The Federal Reserve Bank will supply, on the agent's requisition, a limited number of special endorsement stamps described in Department Circular No. 888, Third Revision. Eligible agents may obtain their own endorsement stamps at their expense, provided that (i) the size of the stamp does not exceed a space bounded by 1¾ inches in the vertical dimension and 3 inches horizontally, and (ii) the wording of the stamp is exactly as prescribed, plus any code number assigned to the agent by the Federal Reserve Bank. Stamps obtained by an agent may include space for the initials or signature of the employee approving the transaction, the date of the transaction, etc. Such stamps must not be obtained prior to notification of qualification.

(b) *Placement of stamp.* Each endorsement impression must be legibly made with black or other dark-colored ink, and placed on the back of the security in the general area provided for signing the request for payment. (See paragraph 5(b) of this memorandum for additional notations which an agent may make on the back of a security.)

7. *Designation of coowner requesting transaction.* Whenever a specially endorsed security registered in coownership form has not been signed by the coowner requesting its payment or exchange, his name (or the names of both coowners, if a joint request is made) in the inscription on the face of the security must be circled in black or other dark-colored ink. This practice must be followed whether the agent pays the security or forwards it to the Federal Reserve Bank for payment or for exchange.

8. *Payment of Series A–E bonds and notes by paying agents.* Any bonds of Series A, B, C, D, and E and notes which are specially endorsed may be paid

by an agent if the securities are otherwise payable under the authority and provisions of Department Circular No. 750, Second Revision, and the instructions issued in conjunction therewith. However, because of problems relating to tax withholding, securities held or received by the agent for account of a nonresident alien individual, or a nonresident foreign corporation, association or partnership, may not be paid by the agent, but must be forwarded to the Federal Reserve Bank for payment. Each specially endorsed Series A–E bond or savings note paid by an agent must have a payment stamp impressed on the face of the security and show therein the date and amount paid. The paid securities may be forwarded to the Federal Reserve Bank with other paid bonds of Series A–E and notes, as prescribed in Department Circular No. 750, Second Revision, and the instructions issued in conjunction therewith.

9. *Payment of Series F and G and matured J and K bonds by paying agents.*—(a) *General.* Any bonds of Series F or G, which are all matured, and any matured bonds of Series J or K, may be paid by special endorsement by a qualified agent under the authority and provisions of Department Circular No. 888, Third Revision, and these instructions.

(b) *Limitation on payment authority.* (1) Alteration, irregularity, mutilation, or other defect: An agent may not pay any security bearing a material alteration, irregularity, mutilation, or other defect. There may be instances, however, in which an agent will be willing to endorse and pay bonds which have minor errors or defects, assuming full responsibility therefor, because of the reliability and integrity of the customer, and his explanation of the situation.

(2) Bonds owned by nonresident aliens: An eligible agent may not pay bonds described in this paragraph which are known to be owned by a nonresident alien individual or a nonresident foreign corporation, association, or partnership. Such bonds must be forwarded to the Federal Reserve Bank for payment.

(c) *Amount payable—Series F and J.* The amount payable on any matured bond of Series F or Series J is its denominational or face value.

(d) *Amount payable—Series G and K.* Any matured Series G or Series K bond is payable at its face value, plus the amount of the final 6 months' interest due for each denomination. The total amount payable for each denomination is set forth in § 330.7(a)(2)(ii) of the circular.

(e) *Recording payment data on bonds.* The amount paid (including final interest in the case of matured Series G and K bonds), date of payment, and the name, location and assigned code of the paying agent must be recorded on each specially endorsed bond. This requirement is designed to: (i) Facilitate accounting and settlement for paid bonds, (ii) provide permanent supporting evidence of the payment, and (iii) prevent a second presentation for payment of bonds which had become lost or stolen. The payment stamp prescribed for use in connection with Series A–E bonds may be used for this purpose, the impression thereof to be placed upon the face of the bond in the upper right portion thereof. Black or other dark-colored ink must be used in making stamp impressions and recording the amounts of payment. The impression and notations must be legible and free from smears and blurs. Care must be taken to prevent defacing the bond serial number, the name and address of the owner, co-owners, or beneficiary, the issue date, and the issuing agent's validating stamp.

(f) *Forwarding paid bonds to Federal Reserve Bank.* Series F and G and matured J and K bonds paid by special endorsement under Circular No. 888, Third Revision, must be grouped into batches for transmittal to the Federal Reserve Bank or Branch servicing the agent's account. Each batch must contain only bonds of the same letter series paid in the same calendar month and year and have not more than 200 bonds or $900,000 (redemption value) in amount. A Form PD 2639 must be prepared as the control and transmittal document for each batch. The agent must complete the form to show: (i) The type of bonds ("Paper"); (ii) the letter series; (iii) the date of transmittal; (iv) the month and year the bonds were paid; (v) the number of bonds in the batch; (vi) the amount paid on the bonds; and (vii) the transaction ("Matured F, G, J, or K"). Shipments may be made each day or less frequently, provided that all paid bonds on hand on the last business day of a month must be forwarded to the Federal Reserve Bank not later than the following business day. Specially endorsed bonds sent to a Federal Reserve Bank for payment or exchange must not be intermingled in any batch containing bonds paid by an agent.

(g) *Manner of shipment.* Paid bonds of Series F, G, J, and K, as herein described may be sent to the Federal Reserve Bank in the same manner in which

the agent transmits paid Series A–E bonds. The provisions of the Government Losses in Shipment Act, as amended, and related regulations, will be applicable to these shipments.

(h) *Claims for loss, theft, destruction, or mutilation of paid bonds.* The eligible agent should promptly notify the Federal Reserve Bank of any loss, theft, destruction, or mutilation of bonds of Series F, G, J, or K which it has paid. To obtain relief for any such bonds prior to receipt by the Federal Reserve Bank, the agent must (i) furnish by letter series, the serial number (including prefix and suffix letters), issue date, amount paid and, if available, the registration of each bond; (ii) certify that the prescribed endorsement and payment stamps were duly impressed; and (iii) provide satisfactory evidence of the loss, theft, destruction, or mutilation. The Treasury does not prescribe the form in which records necessary to support requests for relief should be maintained. Agents are authorized to microfilm paid bonds and such film records may be projected upon a screen, but no prints, enlargements or other reproductions may be made except by official permission, which may be obtained from the Federal Reserve Bank. To support each claim, affidavits by employees and statements by officers of the agent as to the circumstances of the preparation and dispatch of bonds, and any known facts as to the loss, theft, destruction, or mutilation must ordinarily be furnished.

(i) *Settlement for paid bonds.* Immediate settlement by credit will be allowed by the Federal Reserve Bank for the total amount of paid bonds received from a paying agent, subject to adjustment following audit and examination by the Bureau of the Public Debt. The credit will be made in the agent's reserve account if it is a member of the Federal Reserve System. If the agent is not a member, credit may be made in the clearing account of the agent, in the reserve or clearing account of a correspondent of the agent, or, if such an account is not available for credit, by check drawn by the Federal Reserve Bank on the Treasurer of the United States.

(j) *Adjustments for paid bonds.* Discrepancies discovered by the Bureau of the Public Debt in the examination and audit of paid bonds will be referred to the Federal Reserve Bank for adjustment, which will be made by (i) charging the reserve or clearing account which an agent has designated for crediting amounts due for paid bonds or (ii) in those cases where settlement was made by check, either by reducing the amount of the check to be issued in connection with a subsequent transmittal or by requiring the agent to reimburse the Federal Reserve Bank for the amount of the adjustment. The Department of the Treasury will communicate with the agent in the event of an improper payment.

10. *Payment of eligible Series E, F, and J bonds by paying agent in exchange for Series H bonds.* Any bonds of Series E or J which are eligible for redemption by a paying agent in exchange for Series H bonds, and are specially endorsed as prescribed in Department Circular No. 888, Third Revision, may be paid by an agent. The authority of the paying agents to effect redemption-exchanges, as well as complete instructions regarding the conduct of the transactions and the processing of the bonds received for exchange, are contained in Department Circular No. 750, Second Revision, and in the instructions issued in conjunction therewith.

11. *Payment or exchange of bonds of all series and notes by Federal Reserve Banks.*—(a) *General.* All specially endorsed bonds or notes which an agent does not have authority to pay for cash or to exchange for Series H bonds must be forwarded to the Federal Reserve Bank.

(b) *Payment of bonds or notes.* All bonds and notes specially endorsed by an eligible agent which are to be submitted to the Federal Reserve Bank for payment must be forwarded with appropriate instructions regarding disposition of the check to be issued in payment of the securities. Such securities must be kept separate from paid bonds and notes which the agent submits for settlement by credit. Payment will be made by check drawn on the Treasurer of the United States.

12. *Inquiries.* All inquiries concerning Department Circular No. 888, Third Revision, or this memorandum, may be directed to the Federal Reserve Bank of the district in which the agent is located.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 9.—Fourth amendment, December 11, 1968, to Department Circular No. 905, fourth revision, offering of United States savings bonds, Series H

TREASURY DEPARTMENT,
Washington, December 11, 1968.

Treasury Department Circular No. 905, Fourth Revision, dated April 7, 1966, as revised and amended, and the tables incorporated therein (31 CFR Part 332), are hereby further revised and amended as follows:

Sec. 332.8. *Extended terms and improved yields for outstanding bonds.* * * *

(b) *Extended maturity period for bonds with issue dates June 1, 1959, through November 1, 1965.*[1] Owners of Series H bonds with issue dates of June 1, 1959, through November 1, 1965, are hereby granted the option of retaining their bonds for an extended maturity period of ten years.

Subparagraph "(b)" of Section 332.8 of the Third Amendment to this circular is hereby relettered as "(c)."

(d) *Investment yield for extended maturity period—bonds with issue dates of June 1, 1959, through November 1, 1965.* The investment yield for the *extended maturity period* for bonds with issue dates of June 1, 1959, through November 1, 1965, will be 4.25 percent per annum compounded semiannually if the bonds are held to the extended maturity date.[2]

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

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[1] See Section 332.8(b) and footnote 5 of Department Circular No. 905, Fourth Revision, for earlier yields (1966 annual report, page 261). See the Third Amendment of this circular for current yields (1968 annual report pages 198–218).

[2] Under authority of Section 25 of the Second Liberty Bond Act, as amended (73 Stat. 621, 31 U.S.C. 757c–1), the President of the United States on Nov. 16, 1968, found it necessary in the national interest to exceed the maximum investment yield prescribed by Section 22 of the Act.

TABLE 19

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1959

Face value: Issue price Redemption[1] and maturity value	$500 500	$1,000 1,000	$5,000 5,000	$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year [2] (12/1/59)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (6/1/60)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (12/1/60)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (6/1/61)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (12/1/61)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years (6/1/62)	10.00	20.00	100.00	200.00	3.26	[3] 4.00
3½ years (12/1/62)	10.00	20.00	100.00	200.00	3.36	[3] 4.00
4 years (6/1/63)	10.00	20.00	100.00	200.00	3.44	[3] 4.00
4½ years (12/1/63)	10.00	20.00	100.00	200.00	3.49	[3] 4.00
5 years (6/1/64)	10.00	20.00	100.00	200.00	3.54	[3] 4.00
5½ years (12/1/64)	10.00	20.00	100.00	200.00	3.58	[3] 4.00
6 years (6/1/65)	10.00	20.00	100.00	200.00	3.61	[3] 4.00
6½ years (12/1/65)	10.00	20.00	100.00	200.00	3.64	[4] 4.41
7 years (6/1/66)	10.20	20.40	102.00	204.00	3.66	[4] 4.47
7½ years (12/1/66)	10.20	20.40	102.00	204.00	3.69	[4] 4.55
8 years (6/1/67)	10.90	21.80	109.00	218.00	3.72	[4] 4.60
8½ years (12/1/67)	10.90	21.80	109.00	218.00	3.76	[4] 4.68
9 years (6/1/68)	11.70	23.40	117.00	234.00	3.80	4.78
9½ years (12/1/68)	11.70	23.40	117.00	234.00	3.84	4.88
10 years (maturity) (6/1/69)	**12.21**	**24.42**	**122.10**	**244.20**	**3.88**	------------
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (12/1/69)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (6/1/70)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (12/1/70)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (6/1/71)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (12/1/71)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (6/1/72)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (12/1/72)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (6/1/74)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (12/1/74)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (6/1/75)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (12/1/75)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (6/1/76)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (12/1/76)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (6/1/78)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (12/1/78)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (6/1/79)	**16.53**	**33.05**	**165.30**	**330.50**	[6] **4.25**	------------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of June 1, 1959. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.03 percent.

TABLE 20

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1959, THROUGH MAY 1, 1960

Face value {Issue price / Redemption [1] and maturity value}	$500 500	$1,000 1,000	$5,000 5,000	$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year [2] (6/1/60)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (12/1/60)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (6/1/61)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (12/1/61)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (6/1/62)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years (12/1/62)	10.00	20.00	100.00	200.00	3.26	[3] 4.00
3½ years (6/1/63)	10.00	20.00	100.00	200.00	3.36	[3] 4.00
4 years (12/1/63)	10.00	20.00	100.00	200.00	3.44	[3] 4.00
4½ years (6/1/64)	10.00	20.00	100.00	200.00	3.49	[3] 4.00
5 years (12/1/64)	10.00	20.00	100.00	200.00	3.54	[3] 4.00
5½ years (6/1/65)	10.00	20.00	100.00	200.00	3.58	[3] 4.00
6 years (12/1/65)	10.00	20.00	100.00	200.00	3.61	[4] 4.41
6½ years (6/1/66)	10.20	20.40	102.00	204.00	3.64	[4] 4.46
7 years (12/1/66)	10.20	20.40	102.00	204.00	3.67	[4] 4.52
7½ years (6/1/67)	10.80	21.60	108.00	216.00	3.71	[4] 4.57
8 years (12/1/67)	10.80	21.60	108.00	216.00	3.74	[4] 4.63
8½ years (6/1/68)	10.80	21.60	108.00	216.00	3.77	4.84
9 years (12/1/68)	11.85	23.70	118.50	237.00	3.81	4.89
9½ years (6/1/69)	11.85	23.70	118.50	237.00	3.85	5.05
10 years (maturity) (12/1/69)	**12.62**	**25.24**	**126.20**	**252.40**	**3.90**	------------
Period of time bond is held after maturity data	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (6/1/70)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (12/1/70)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (6/1/71)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (12/1/71)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (6/1/72)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (12/1/72)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (12/1/74)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (6/1/75)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (12/1/75)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (6/1/76)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (12/1/76)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (12/1/78)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (6/1/79)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (12/1/79)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	------------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of December 1, 1959. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.01 percent.

TABLE 21

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1960

Face value	$500	$1,000	$5,000	$10,000	Approximate investment yield on face value	
Issue price	$500	$1,000	$5,000	$10,000		
Redemption[1] and maturity value	500	1,000	5,000	10,000		
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year[2] (12/1/60)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (6/1/61)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (12/1/61)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (6/1/62)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (12/1/62)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years (6/1/63)	10.00	20.00	100.00	200.00	3.26	[3] 4.00
3½ years (12/1/63)	10.00	20.00	100.00	200.00	3.36	[3] 4.00
4 years (6/1/64)	10.00	20.00	100.00	200.00	3.44	[3] 4.00
4½ years (12/1/64)	10.00	20.00	100.00	200.00	3.49	[3] 4.00
5 years (6/1/65)	10.00	20.00	100.00	200.00	3.54	[3] 4.00
5½ years (12/1/65)	10.00	20.00	100.00	200.00	3.58	[4] 4.40
6 years (6/1/66)	10.20	20.40	102.00	204.00	3.62	[4] 4.44
6½ years (12/1/66)	10.20	20.40	102.00	204.00	3.65	[4] 4.50
7 years (6/1/67)	10.70	21.40	107.00	214.00	3.69	[4] 4.54
7½ years (12/1/67)	10.70	21.40	107.00	214.00	3.72	[4] 4.60
8 years (6/1/68)	10.70	21.40	107.00	214.00	3.75	4.78
8½ years (12/1/68)	10.70	21.40	107.00	214.00	3.78	4.96
9 years (6/1/69)	12.05	24.10	120.50	241.00	3.83	5.03
9½ years (12/1/69)	12.05	24.10	120.50	241.00	3.87	5.24
10 years (maturity) (6/1/70)	**13.09**	**26.18**	**130.90**	**261.80**	**3.93**	----------
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (12/1/70)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (6/1/71)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (12/1/71)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (6/1/72)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (12/1/72)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (6/1/75)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (12/1/75)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (6/1/76)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (12/1/76)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (6/1/79)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (12/1/79)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity)[5] (6/1/80)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	----------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of June 1, 1960. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.05 percent.

TABLE 22

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1960, THROUGH MAY 1, 1961

Face value: Issue price / Redemption [1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	Percent
½ year [2](6/1/61)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (12/1/61)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (6/1/62)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (12/1/62)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (6/1/63)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years (12/1/63)	10.00	20.00	100.00	200.00	3.26	[3] 4.00
3½ years (6/1/64)	10.00	20.00	100.00	200.00	3.36	[3] 4.00
4 years (12/1/64)	10.00	20.00	100.00	200.00	3.44	[3] 4.00
4½ years (6/1/65)	10.00	20.00	100.00	200.00	3.49	[3] 4.00
5 years (12/1/65)	10.00	20.00	100.00	200.00	3.54	[4] 4.40
5½ years (6/1/66)	10.20	20.40	102.00	204.00	3.58	[4] 4.44
6 years (12/1/66)	10.20	20.40	102.00	204.00	3.62	[4] 4.49
6½ years (6/1/67)	10.20	20.40	102.00	204.00	3.65	[4] 4.56
7 years (12/1/67)	11.00	22.00	110.00	220.00	3.70	[4] 4.58
7½ years (6/1/68)	11.00	22.00	110.00	220.00	3.74	4.72
8 years (12/1/68)	11.00	22.00	110.00	220.00	3.78	4.81
8½ years (6/1/69)	11.00	22.00	110.00	220.00	3.81	4.95
9 years (12/1/69)	11.95	23.90	119.50	239.00	3.85	5.04
9½ years (6/1/70)	11.95	23.90	119.50	239.00	3.89	5.31
10 years (maturity) (12/1/70)	**13.27**	**26.54**	**132.70**	**265.40**	**3.95**	------------
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (6/1/71)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (12/1/71)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (6/1/72)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (12/1/72)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (6/1/75)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (12/1/75)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (6/1/76)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (12/1/76)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (6/1/79)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (12/1/79)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (6/1/80)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (12/1/80)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	------------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of December 1, 1960. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.07 percent.

TABLE 23

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1961

Face value {Issue price / Redemption [1] and maturity value}	$500 500	$1,000 1,000	$5,000 5,000	$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year (12/1/61) [2]	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (6/1/62)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (12/1/62)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (6/1/63)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (12/1/63)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years (6/1/64)	10.00	20.00	100.00	200.00	3.26	[3] 4.00
3½ years (12/1/64)	10.00	20.00	100.00	200.00	3.36	[3] 4.00
4 years (6/1/65)	10.00	20.00	100.00	200.00	3.44	[3] 4.00
4½ years (12/1/65)	10.00	20.00	100.00	200.00	3.49	[4] 4.40
5 years (6/1/66)	10.20	20.40	102.00	204.00	3.55	[4] 4.44
5½ years (12/1/66)	10.20	20.40	102.00	204.00	3.59	[4] 4.48
6 years (6/1/67)	10.20	20.40	102.00	204.00	3.63	[4] 4.54
6½ years (12/1/67)	10.85	21.70	108.50	217.00	3.68	[4] 4.57
7 years (6/1/68)	10.85	21.70	108.50	217.00	3.72	4.71
7½ years (12/1/68)	10.85	21.70	108.50	217.00	3.75	4.79
8 years (6/1/69)	11.35	22.70	113.50	227.00	3.80	4.85
8½ years (12/1/69)	11.35	22.70	113.50	227.00	3.83	4.96
9 years (6/1/70)	11.35	22.70	113.50	227.00	3.87	5.18
9½ years (12/1/70)	12.15	24.30	121.50	243.00	3.91	5.50
10 years (maturity) (6/1/71)	**13.75**	**27.50**	**137.50**	**275.00**	**3.97**	------------
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (12/1/71)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (6/1/72)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (12/1/72)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (6/1/75)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (12/1/75)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (6/1/76)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (12/1/76)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (6/1/79)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (12/1/79)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (6/1/80)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (12/1/80)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (6/1/81)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	------------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of June 1, 1961. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.08 percent.

TABLE 24

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1961, THROUGH MAY 1, 1962

Face value: Issue price / Redemption[1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year [2] (6/1/62)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (12/1/62)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (6/1/63)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (12/1/63)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (6/1/64)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years (12/1/64)	10.00	20.00	100.00	200.00	3.26	[3] 4.00
3½ years (6/1/65)	10.00	20.00	100.00	200.00	3.36	[3] 4.00
4 years (12/1/65)	10.00	20.00	100.00	200.00	3.44	[4] 4.40
4½ years (6/1/66)	10.20	20.40	102.00	204.00	3.50	[4] 4.43
5 years (12/1/66)	10.20	20.40	102.00	204.00	3.56	[4] 4.47
5½ years (6/1/67)	10.20	20.40	102.00	204.00	3.60	[4] 4.52
6 years (12/1/67)	10.75	21.50	107.50	215.00	3.65	[4] 4.55
6½ years (6/1/68)	10.75	21.50	107.50	215.00	3.69	4.69
7 years (12/1/68)	10.75	21.50	107.50	215.00	3.73	4.76
7½ years (6/1/69)	11.25	22.50	112.50	225.00	3.78	4.82
8 years (12/1/69)	11.25	22.50	112.50	225.00	3.82	4.90
8½ years (6/1/70)	11.25	22.50	112.50	225.00	3.85	5.05
9 years (12/1/70)	12.00	24.00	120.00	240.00	3.89	5.17
9½ years (6/1/71)	12.00	24.00	120.00	240.00	3.93	5.56
10 years (maturity) (12/1/71)	**13.89**	**27.78**	**138.90**	**277.80**	**4.00**	
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (6/1/72)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (12/1/72)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (6/1/75)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (12/1/75)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (6/1/76)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (12/1/76)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (6/1/79)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (12/1/79)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (6/1/80)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (12/1/80)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (6/1/81)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (12/1/81)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of December 1, 1961. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.10 percent.

TABLE 25

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1962

Face value: Issue price / Redemption [1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year [2] (12/1/62)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (6/1/63)	7.25	14.50	72.50	145.00	2.25	[3] 3.96
1½ years (12/1/63)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (6/1/64)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (12/1/64)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years (6/1/65)	10.00	20.00	100.00	200.00	3.26	[3] 4.00
3½ years (12/1/65)	10.00	20.00	100.00	200.00	3.36	[4] 4.40
4 years (6/1/66)	10.20	20.40	102.00	204.00	3.45	[4] 4.43
4½ years (12/1/66)	10.20	20.40	102.00	204.00	3.51	[4] 4.47
5 years (6/1/67)	10.20	20.40	102.00	204.00	3.56	[4] 4.51
5½ years (12/1/67)	10.65	21.30	106.50	213.00	3.62	[4] 4.54
6 years (6/1/68)	10.65	21.30	106.50	213.00	3.67	4.68
6½ years (12/1/68)	10.65	21.30	106.50	213.00	3.71	4.75
7 years (6/1/69)	11.25	22.50	112.50	225.00	3.76	4.79
7½ years (12/1/69)	11.25	22.50	112.50	225.00	3.80	4.85
8 years (6/1/70)	11.25	22.50	112.50	225.00	3.84	4.95
8½ years (12/1/70)	11.25	22.50	112.50	225.00	3.87	5.10
9 years (6/1/71)	12.05	24.10	120.50	241.00	3.91	5.25
9½ years (12/1/71)	12.05	24.10	120.50	241.00	3.95	5.69
10 years (maturity) (6/1/72)	**14.23**	**28.46**	**142.30**	**284.60**	**4.02**	------------
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (12/1/72)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (6/1/73)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (6/1/75)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (12/1/75)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (6/1/76)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (12/1/76)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (6/1/77)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (6/1/79)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (12/1/79)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (6/1/80)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (12/1/80)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (6/1/81)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (12/1/81)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (6/1/82)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	------------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of June 1, 1962. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.11 percent.

TABLE 26

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1962, THROUGH MAY 1, 1963

Face value: Issue price / Redemption [1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year .... [2] (6/1/63)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year .... (12/1/63)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years .... (6/1/64)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years .... (12/1/64)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years .... (6/1/65)	10.00	20.00	100.00	200.00	3.12	[3] 4.00
3 years .... (12/1/65)	10.00	20.00	100.00	200.00	3.26	[4] 4.40
3½ years .... (6/1/66)	10.20	20.40	102.00	204.00	3.37	[4] 4.43
4 years .... (12/1/66)	10.20	20.40	102.00	204.00	3.45	[4] 4.46
4½ years .... (6/1/67)	10.20	20.40	102.00	204.00	3.52	[4] 4.50
5 years .... (12/1/67)	10.60	21.20	106.00	212.00	3.58	[4] 4.53
5½ years .... (6/1/68)	10.60	21.20	106.00	212.00	3.64	4.67
6 years .... (12/1/68)	10.60	21.20	106.00	212.00	3.68	4.73
6½ years .... (6/1/69)	11.15	22.30	111.50	223.00	3.74	4.77
7 years .... (12/1/69)	11.15	22.30	111.50	223.00	3.78	4.82
7½ years .... (6/1/70)	11.15	22.30	111.50	223.00	3.82	4.90
8 years .... (12/1/70)	11.15	22.30	111.50	223.00	3.85	5.02
8½ years .... (6/1/71)	11.95	23.90	119.50	239.00	3.90	5.10
9 years .... (12/1/71)	11.95	23.90	119.50	239.00	3.94	5.27
9½ years .... (6/1/72)	11.95	23.90	119.50	239.00	3.98	5.77
10 years (maturity) .... (12/1/72)	**14.43**	**28.86**	**144.30**	**288.60**	**4.05**	....
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year .... (6/1/73)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year .... (12/1/73)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years .... (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.27
2 years .... (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years .... (6/1/75)	10.37	20.75	103.75	207.50	4.15	4.29
3 years .... (12/1/75)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years .... (6/1/76)	10.37	20.75	103.75	207.50	4.15	4.32
4 years .... (12/1/76)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years .... (6/1/77)	10.37	20.75	103.75	207.50	4.15	4.35
5 years .... (12/1/77)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years .... (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.40
6 years .... (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years .... (6/1/79)	10.38	20.75	103.75	207.50	4.15	4.48
7 years .... (12/1/79)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years .... (6/1/80)	10.38	20.75	103.75	207.50	4.15	4.62
8 years .... (12/1/80)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years .... (6/1/81)	10.38	20.75	103.75	207.50	4.15	4.95
9 years .... (12/1/81)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years .... (6/1/82)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] .... (12/1/82)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	....

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of December 1, 1962. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.13 percent.

TABLE 27

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1963

Face value: Issue price / Redemption[1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	Percent
½ year[2] (12/1/63)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (6/1/64)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (12/1/64)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (6/1/65)	10.00	20.00	100.00	200.00	2.91	[3] 4.00
2½ years (12/1/65)	10.00	20.00	100.00	200.00	3.12	[4] 4.40
3 years (6/1/66)	10.20	20.40	102.00	204.00	3.27	[4] 4.43
3½ years (12/1/66)	10.20	20.40	102.00	204.00	3.38	[4] 4.46
4 years (6/1/67)	10.20	20.40	102.00	204.00	3.46	[4] 4.49
4½ years (12/1/67)	10.55	21.10	105.50	211.00	3.54	[4] 4.52
5 years (6/1/68)	10.55	21.10	105.50	211.00	3.60	4.66
5½ years (12/1/68)	10.55	21.10	105.50	211.00	3.65	4.71
6 years (6/1/69)	11.10	22.20	111.00	222.00	3.71	4.75
6½ years (12/1/69)	11.10	22.20	111.00	222.00	3.76	4.80
7 years (6/1/70)	11.10	22.20	111.00	222.00	3.80	4.86
7½ years (12/1/70)	11.10	22.20	111.00	222.00	3.84	4.95
8 years (6/1/71)	11.10	22.20	111.00	222.00	3.87	5.09
8½ years (12/1/71)	12.05	24.10	120.50	241.00	3.92	5.18
9 years (6/1/72)	12.05	24.10	120.50	241.00	3.96	5.37
9½ years (12/1/72)	12.05	24.10	120.50	241.00	4.00	5.94
10 years (maturity) (6/1/73)	**14.84**	**29.68**	**148.40**	**296.80**	**4.08**	------------
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (12/1/73)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (6/1/74)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (6/1/75)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (12/1/75)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (6/1/76)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (12/1/76)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (6/1/77)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (12/1/77)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (6/1/78)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (6/1/79)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (12/1/79)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (6/1/80)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (12/1/80)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (6/1/81)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (12/1/81)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (6/1/82)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (12/1/82)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity)[5] (6/1/83)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	------------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of June 1, 1963. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.15 percent.

TABLE 28

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1963, THROUGH MAY 1, 1964

Face value: Issue price / Redemption [1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year [2] (6/1/64)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (12/1/64)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years (6/1/65)	8.00	16.00	80.00	160.00	2.56	[3] 4.00
2 years (12/1/65)	10.00	20.00	100.00	200.00	2.91	[4] 4.40
2½ years (6/1/66)	10.20	20.40	102.00	204.00	3.14	[4] 4.43
3 years (12/1/66)	10.20	20.40	102.00	204.00	3.29	[4] 4.46
3½ years (6/1/67)	10.20	20.40	102.00	204.00	3.39	[4] 4.49
4 years (12/1/67)	10.20	20.40	102.00	204.00	3.47	[4] 4.53
4½ years (6/1/68)	10.75	21.50	107.50	215.00	3.56	4.65
5 years (12/1/68)	10.75	21.50	107.50	215.00	3.63	4.69
5½ years (6/1/69)	10.75	21.50	107.50	215.00	3.68	4.74
6 years (12/1/69)	10.75	21.50	107.50	215.00	3.73	4.80
6½ years (6/1/70)	11.25	22.50	112.50	225.00	3.78	4.85
7 years (12/1/70)	11.25	22.50	112.50	225.00	3.83	4.92
7½ years (6/1/71)	11.25	22.50	112.50	225.00	3.86	5.01
8 years (12/1/71)	11.25	22.50	112.50	225.00	3.90	5.14
8½ years (6/1/72)	12.10	24.20	121.00	242.00	3.94	5.24
9 years (12/1/72)	12.10	24.20	121.00	242.00	3.99	5.45
9½ years (6/1/73)	12.10	24.20	121.00	242.00	4.02	6.08
10 years (maturity) (12/1/73)	**15.21**	**30.42**	**152.10**	**304.20**	**4.11**	
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (6/1/74)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (12/1/74)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (6/1/75)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (12/1/75)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (6/1/76)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (12/1/76)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (6/1/77)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (12/1/77)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (6/1/78)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (12/1/78)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (6/1/79)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (12/1/79)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (6/1/80)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (12/1/80)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (6/1/81)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (12/1/81)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (6/1/82)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (12/1/82)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (6/1/83)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (12/1/83)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of December 1, 1963. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.16 percent.

TABLE 29

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1964

Face value: Issue price / Redemption[1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year ....[2] (12/1/64)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year ....(6/1/65)	7.25	14.50	72.50	145.00	2.25	[3] 3.95
1½ years ....(12/1/65)	8.00	16.00	80.00	160.00	2.56	[4] 4.40
2 years ....(6/1/66)	10.20	20.40	102.00	204.00	2.93	[4] 4.42
2½ years ....(12/1/66)	10.20	20.40	102.00	204.00	3.15	[4] 4.45
3 years ....(6/1/67)	10.20	20.40	102.00	204.00	3.30	[4] 4.48
3½ years ....(12/1/67)	10.20	20.40	102.00	204.00	3.41	[4] 4.52
4 years ....(6/1/68)	10.70	21.40	107.00	214.00	3.51	4.64
4½ years ....(12/1/68)	10.70	21.40	107.00	214.00	3.59	4.68
5 years ....(6/1/69)	10.70	21.40	107.00	214.00	3.65	4.72
5½ years ....(12/1/69)	10.70	21.40	107.00	214.00	3.70	4.78
6 years ....(6/1/70)	11.20	22.40	112.00	224.00	3.76	4.82
6½ years ....(12/1/70)	11.20	22.40	112.00	224.00	3.81	4.87
7 years ....(6/1/71)	11.20	22.40	112.00	224.00	3.85	4.94
7½ years ....(12/1/71)	11.20	22.40	112.00	224.00	3.89	5.04
8 years ....(6/1/72)	11.20	22.40	112.00	224.00	3.92	5.19
8½ years ....(12/1/72)	12.15	24.30	121.50	243.00	3.96	5.31
9 years ....(6/1/73)	12.15	24.30	121.50	243.00	4.01	5.54
9½ years ....(12/1/73)	12.15	24.30	121.50	243.00	4.04	6.23
10 years (maturity) ....(6/1/74)	**15.58**	**31.16**	**155.80**	**311.60**	**4.13**	....
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year ....(12/1/74)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year ....(6/1/75)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years ....(12/1/75)	10.37	20.75	103.75	207.50	4.15	4.27
2 years ....(6/1/76)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years ....(12/1/76)	10.37	20.75	103.75	207.50	4.15	4.29
3 years ....(6/1/77)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years ....(12/1/77)	10.37	20.75	103.75	207.50	4.15	4.32
4 years ....(6/1/78)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years ....(12/1/78)	10.37	20.75	103.75	207.50	4.15	4.35
5 years ....(6/1/79)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years ....(12/1/79)	10.38	20.75	103.75	207.50	4.15	4.40
6 years ....(6/1/80)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years ....(12/1/80)	10.38	20.75	103.75	207.50	4.15	4.48
7 years ....(6/1/81)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years ....(12/1/81)	10.38	20.75	103.75	207.50	4.15	4.62
8 years ....(6/1/82)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years ....(12/1/82)	10.38	20.75	103.75	207.50	4.15	4.95
9 years ....(6/1/83)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years ....(12/1/83)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] ....(6/1/84)	**16.53**	**33.05**	**165.30**	**330.50**	[6] **4.25**	....

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of June 1, 1964. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.18 percent.

TABLE 30

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1964, THROUGH MAY 1, 1965

Face value: Issue price / Redemption[1] and maturity value	$500 / 500	$1,000 / 1,000	$5,000 / 5,000	$10,000 / 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	*Percent*
½ year [2] (6/1/65)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 3.88
1 year (12/1/65)	7.25	14.50	72.50	145.00	2.25	[4] 4.35
1½ years (6/1/66)	8.20	16.40	82.00	164.00	2.59	[4] 4.42
2 years (12/1/66)	10.20	20.40	102.00	204.00	2.95	[4] 4.45
2½ years (6/1/67)	10.20	20.40	102.00	204.00	3.17	[4] 4.48
3 years (12/1/67)	10.20	20.40	102.00	204.00	3.31	[4] 4.51
3½ years (6/1/68)	10.65	21.30	106.50	213.00	3.44	4.63
4 years (12/1/68)	10.65	21.30	106.50	213.00	3.54	4.67
4½ years (6/1/69)	10.65	21.30	106.50	213.00	3.61	4.71
5 years (12/1/69)	10.65	21.30	106.50	213.00	3.67	4.76
5½ years (6/1/70)	10.65	21.30	106.50	213.00	3.72	4.83
6 years (12/1/70)	11.35	22.70	113.50	227.00	3.78	4.86
6½ years (6/1/71)	11.35	22.70	113.50	227.00	3.83	4.92
7 years (12/1/71)	11.35	22.70	113.50	227.00	3.88	4.98
7½ years (6/1/72)	11.35	22.70	113.50	227.00	3.91	5.08
8 years (12/1/72)	11.35	22.70	113.50	227.00	3.95	5.22
8½ years (6/1/73)	12.15	24.30	121.50	243.00	3.99	5.35
9 years (12/1/73)	12.15	24.30	121.50	243.00	4.03	5.60
9½ years (6/1/74)	12.15	24.30	121.50	243.00	4.07	6.36
10 years (maturity) (12/1/74)	**15.91**	**31.82**	**159.10**	**318.20**	**4.16**	
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (6/1/75)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (12/1/75)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (6/1/76)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (12/1/76)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (6/1/77)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (12/1/77)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (6/1/78)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (12/1/78)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (6/1/79)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (12/1/79)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (6/1/80)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (12/1/80)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (6/1/81)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (12/1/81)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (6/1/82)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (12/1/82)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (6/1/83)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (12/1/83)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (6/1/84)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity) [5] (12/1/84)	**16.53**	**33.05**	**165.30**	**330.50**	**[6] 4.25**	

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of December 1, 1964. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the December 1, 1965, revision.
[4] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[5] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[6] Yield on purchase price from issue date to extended maturity is 4.20 percent.

TABLE 31

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1965

Face value {Issue price / Redemption[1] and maturity value	$500 500	$1,000 1,000	$5,000 5,000	$10,000 10,000	Approximate investment yield on face value	
Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination				(2) From issue date or maturity date to each interest payment date thereafter	(3) From each interest payment date (a) to maturity
					Percent	Percent
½ year [2] (12/1/65)	$4.00	$8.00	$40.00	$80.00	1.60	[3] 4.28
1 year (6/1/66)	7.45	14.90	74.50	149.00	2.29	[3] 4.37
1½ years (12/1/66)	8.20	16.40	82.00	164.00	2.61	[3] 4.45
2 years (6/1/67)	10.20	20.40	102.00	204.00	2.97	[3] 4.47
2½ years (12/1/67)	10.20	20.40	102.00	204.00	3.18	[3] 4.51
3 years (6/1/68)	10.60	21.20	106.00	212.00	3.35	4.63
3½ years (12/1/68)	10.60	21.20	106.00	212.00	3.47	4.66
4 years (6/1/69)	10.60	21.20	106.00	212.00	3.56	4.70
4½ years (12/1/69)	10.60	21.20	106.00	212.00	3.63	4.75
5 years (6/1/70)	10.60	21.20	106.00	212.00	3.69	4.81
5½ years (12/1/70)	11.30	22.60	113.00	226.00	3.76	4.84
6 years (6/1/71)	11.30	22.60	113.00	226.00	3.81	4.89
6½ years (12/1/71)	11.30	22.60	113.00	226.00	3.86	4.95
7 years (6/1/72)	11.30	22.60	113.00	226.00	3.90	5.02
7½ years (12/1/72)	11.30	22.60	113.00	226.00	3.94	5.13
8 years (6/1/73)	12.05	24.10	120.50	241.00	3.98	5.21
8½ years (12/1/73)	12.05	24.10	120.50	241.00	4.02	5.35
9 years (6/1/74)	12.05	24.10	120.50	241.00	4.06	5.63
9½ years (12/1/74)	12.05	24.10	120.50	241.00	4.09	6.46
10 years (maturity) (6/1/75)	**16.15**	**32.30**	**161.50**	**323.00**	**4.19**	------------
Period of time bond is held after maturity date	EXTENDED MATURITY PERIOD					(b) To extended maturity
½ year (12/1/75)	$10.37	$20.75	$103.75	$207.50	4.15	4.26
1 year (6/1/76)	10.37	20.75	103.75	207.50	4.15	4.26
1½ years (12/1/76)	10.37	20.75	103.75	207.50	4.15	4.27
2 years (6/1/77)	10.37	20.75	103.75	207.50	4.15	4.28
2½ years (12/1/77)	10.37	20.75	103.75	207.50	4.15	4.29
3 years (6/1/78)	10.37	20.75	103.75	207.50	4.15	4.30
3½ years (12/1/78)	10.37	20.75	103.75	207.50	4.15	4.32
4 years (6/1/79)	10.37	20.75	103.75	207.50	4.15	4.33
4½ years (12/1/79)	10.37	20.75	103.75	207.50	4.15	4.35
5 years (6/1/80)	10.38	20.75	103.75	207.50	4.15	4.37
5½ years (12/1/80)	10.38	20.75	103.75	207.50	4.15	4.40
6 years (6/1/81)	10.38	20.75	103.75	207.50	4.15	4.43
6½ years (12/1/81)	10.38	20.75	103.75	207.50	4.15	4.48
7 years (6/1/82)	10.38	20.75	103.75	207.50	4.15	4.54
7½ years (12/1/82)	10.38	20.75	103.75	207.50	4.15	4.62
8 years (6/1/83)	10.38	20.75	103.75	207.50	4.15	4.74
8½ years (12/1/83)	10.38	20.75	103.75	207.50	4.15	4.95
9 years (6/1/84)	10.38	20.75	103.75	207.50	4.15	5.36
9½ years (12/1/84)	10.38	20.75	103.75	207.50	4.15	6.61
10 years (extended maturity)[4] (6/1/85)	**16.53**	**33.05**	**165.30**	**330.50**	**[5] 4.25**	------------

[1] At all times, except that bond was not redeemable during first 6 months.
[2] Month, day, and year on which interest check is payable on issues of June 1, 1965. For subsequent issue months add the appropriate number of months.
[3] Yield on face value from each interest payment date to maturity based on the schedule of interest checks prior to the June 1, 1968, revision.
[4] 20 years after issue date. Final checks at original and extended maturity improved by revision of June 1, 1968.
[5] Yield on purchase price from issue date to extended maturity is 4.21 percent.

Legislation

Exhibit 10.—An act to extend to savings notes the provisions of the Second Liberty Bond Act relating to the redemption of savings bonds and the payment of losses incurred in connection with such redemption

[Public Law 90-595, 90th Congress, H.R. 15114, October 17, 1968]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 22(h) of the Second Liberty Bond Act, as amended (31 U.S.C. 757c(h)), is amended by inserting "and savings notes" after "bonds". Savings notes, redemption. 59 Stat. 47.

SEC. 2. The first sentence of section 22(i) of the Second Liberty Bond Act, as amended (31 U.S.C. 757c(i)), is amended by inserting "and savings notes" after "bonds". The second sentence of such section is amended by striking out "such bonds," and inserting in lieu thereof "such bonds and notes,".

Approved October 17, 1968.

Exhibit 11.—An act to increase the public debt limit set forth in section 21 of the Second Liberty Bond Act

[Public Law 91-8, 91st Congress, H.R. 8508, April 7, 1969]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) is amended by striking out "$358,000,000,000" and inserting in lieu thereof "$365,000,000,000". Public debt limit. Increase. 81 Stat. 99.

SEC. 2. During the period beginning on the date of the enactment of this Act and ending on June 30, 1970, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act shall be temporarily increased by $12,000,000,000. Section 3 of the Act of June 30, 1967 (Public Law 90-39; 81 Stat. 99), is repealed. Temporary annual increase. Repeal. 31 U.S.C. 757b-2.

Approved April 7, 1969.

Financial Policy

Exhibit 12.—Statement by Secretary Fowler, September 20, 1968, before the National Industrial Conference Board, New York, New York, on the economy

In this closing session permit me to speak in a more direct and personal vein than usual in availing myself of this last of the pleasant privileges the National Industrial Conference Board has given me to meet with you in an official capacity.

Having just turned 60 and in the process of completing my eighth and final year at the Treasury window, I will demonstrate conclusively that there is a generation gap.

Indeed, in many ways, I am proud of it.

I am more than a little sick of hearing that America is a "sick" society. I am tired of hearing about what is wrong with our country.

It is time somebody talked about what is right with the United States.

Let me do my part in the area with which I am most familiar by saying that the U.S. economy—with its free enterprise system and a working partnership between business, labor, and Government—is providing more prosperity, more opportunity, more sharing in abundance, more educational and health and cultural advances, than any society since the world began, and at a much higher and more sustained pace than ever before in its history.

We must not permit the sustained economic progress on which this is based to be undermined by a loss of confidence in ourselves and our country. But that can happen here if our total emphasis is on racial strife, student revolt and campus unrest, crime, and dissent over U.S. involvement in the maintenance of free world security and development.

Of course, these problems exist, like the inflationary pressures today that afflict our current economy. These problems must and are being tackled but we

should not be deluded into believing that they reflect some ailment peculiar to the United States—some strange virus that surely will bring our system down.

Indeed, these tensions are observable over the free world wherever liberty and opportunity permit the eye to see and ear to hear and the voice to speak out. They exist even in areas where totalitarian order is maintained by repression and tyranny over the individual.

These tensions exist all over the world where people of different races live under the same flag or where young people of relative affluence and opportunity enjoy the heady wine of university life and are confronted with the age-old problem of sorting out liberty from license.

Where, since Cain slaughtered his brother Abel, has history recorded a crime-free society?

Whenever did a country stand up for the rights of others, however far away or close by, at the cost of some blood or treasure, that a large group within it didn't urge that, in the words of the parable of the Good Samaritan, "We pass by on the other side?"

The principal difference between the United States and most of the rest of the world, in the perspective of these problems, is that the United States is tackling racial discrimination, student alienation, and crime—and doing so within a framework of democracy, justice, and order.

And the U.S. Government is subjected to outspoken dissent on foreign affairs for two reasons: first, the nation believes in the right of dissent and, second, the United States is doing its share, with many other nations defaulting, in providing the security from aggression that peoples everywhere thought was guaranteed under the Charter of the United Nations.

And the United States is doing all this in the broad daylight of a free press and national TV networks aided by communications satellites working hard to give the world the news about the United States which, under the accepted definition of news, accentuates conflict rather than accomplishment—what is wrong rather than what is right.

Consider what Australia's Prime Minister Gorton recently said:

"I wonder if anybody has thought what the situation of comparatively small nations would be if there were not in existence a United States—with a heritage of democracy and a willingness to see that small nations who otherwise might not be able to protect themselves are given some shield. Imagine what the situation in the world would be if there were not a great and giant country prepared to make those sacrifices."

Let those who advocate a return to isolationism ponder what would have happened to freedom and self-determination in Western Europe, in Iran, in Greece, in Turkey, in Korea, in Lebanon, in Taiwan, in The Congo, in India, in the Middle East, and in Southeast Asia if United States foreign policy had acceded to the views of dissenters—the neoisolationists and those who would passively watch Communist totalitarianism roll over freedom and self-determination at will.

The recognition of these sources of divisiveness in our society makes it all the more important to emphasize and conserve the blessings we share in this good land which is our heritage.

Before I attempt this emphasis in the field of economic affairs, may I invite other chroniclers to do the same in cultural affairs, in social welfare, in religious activities, in private charities, in recreation, and in the youth movements we used to hear about. That may not be the road to winning a Pulitzer or Nobel prize, but it can give one the satisfaction of helping to "tell it like it is."

Conserving that which is good is as important as changing that which is undesirable. Continuity as well as change are essential to constructive economic life and progressive evolution in political and social affairs.

Against that background let us examine the contours of unparalleled economic progress of recent years, its social side effects, the proven tools that have been employed, and some necessary projections of these proven policies and programs in 1969. Otherwise, they may be overcome or lost in the sea of change or threatened change that characteristically engulfs our commonwealth every 4 years under our constitutional system.

92 months of sustained and adequate economic growth

Some 8 years ago the American economy was sliding into recession—its third within a span of a half-dozen years. The growth rate had been anemic during

this period, unemployment was trending higher in each recession, and private investment incentives were inadequate.

In 1960, in the Report of President Eisenhower's Commission on National Goals, appointed as a nonpartisan body to set goals for vital areas of our national life, there was the following recommendation on economic growth:

"The economy should grow at the maximum rate consistent with primary dependence upon free enterprise and the avoidance of marked inflation. Increased investment in the public sector is compatible with this goal.

"Such growth is essential to move toward our goal of full employment, to provide jobs for the approximately 13,500,000 net new additions to the work force during the next 10 years; to improve the standard of living; and to assure U.S. competitive strength.

"Public policies, particularly an overhaul of the tax system, including depreciation allowances, should seek to improve the climate for new investment and the balancing of investment with consumption. We should give attention to policies favoring completely new ventures which involve a high degree of risk and growth potential."

The time had come to forge new policies, adapt old ones, and restore the sustained and adequate growth to a U.S. economy that was essential to domestic progress and our international position.

That task was undertaken by President Kennedy, executed by President Johnson, with the support of both political parties in the Congress and the leaders of business, labor and finance.

The economic malaise of the 1950's is almost forgotten after the 92 months of sustained and adequate economic growth which has followed. This remarkable achievement has disposed of the boast of Soviet Premier Khrushchev that he would "bury us" economically, the concern over the increasing frequency and length of recessions and the upward drift in the United States of unemployment, the technological gap, the educational gap, the gloomy prediction that automation and technological advances would leave a sizeable proportion of our work force permanently unemployed. These questions have disappeared in large part because of the astounding performance of the U.S. economy. In short, while the American people certainly still face problems, the economic gloom of the Fifties is not one of them.

True, old social problems have taken on a new urgency as part of a rising tide of expectations induced by this economic progress. The magnitude of these problems—and the emotions they sometimes arouse—may seem at times to obscure the achievements of good economic policies. But we would do well to recall that the American economy has been, and can continue to be, a mighty engine of social progress.

The lesson of the 1960's is the enormous difference that public policies can make in creating an atmosphere within which the private economy can flourish. Whatever our political persuasion or allegiance, this is a lesson we cannot safely ignore in meeting the challenges that lie ahead.

Domestic Economic and Financial Developments

It is hardly necessary to remind this audience that the decade of the 1960's has been a period of domestic economic advance without parallel in our previous experience. By mid-1965 the current expansion was already the longest and strongest peacetime expansion on record. Most remarkable of all, it had been achieved with near stability in costs and prices. A stubborn balance of payments problem which had emerged in 1958 seemed near solution.

After mid-1965 and the intensification of the Vietnam effort, economic policy could no longer be determined on the basis of economic considerations alone. The going became tougher. Still, the economy has weathered a difficult adjustment with less price inflation than during earlier defense buildups, without resort to controls, and without tailing off into recession. Our balance of payments problem, while still very much with us, has been reduced to manageable proportions. This, I submit, is a good record by any standard.

The current expansion is certainly not without its blemishes domestically. Prices and costs have recently been rising far too rapidly for our continued economic health. Interest rates zoomed to undesirable highs. Some sectors of the economy have had very difficult adjustments to make in the past few years. But despite these problems, there has been no lasting interruption to the enormous productive achievements of the American economy. Furthermore, with fiscal

restraints now in place and the Federal finances moving toward balance, the most serious immediate threat to continued expansion has been removed.

Rapid and sustained growth was not just a happy accident in the 1960's. It resulted from a considered decision to employ certain policy tools more actively and imaginatively than before. Recognition of the need for more active resort to policy tools—particularly in the fiscal area—grew out of the relatively disappointing economic performance of the late 1950's.

There will, of course, be differences of opinion as to the relative effectiveness and timing of the policy measures that have been taken. Much can, and should, be learned from our inadequacies as well as our successes. But there should no longer be any fencing about "growthmanship" or gloomy questioning whether the U.S. economy can realize its full potential. Experience in this decade has contradicted the pessimism of those who would have set our sights too low and sentenced the American people to another decade of slow growth and rising unemployment.

How much difference has faster growth made in the current decade? From early 1961 to the present, the national growth rate—in terms of real gross national product—has averaged more than 5 percent per annum. In the previous 8 years, it averaged only a little more than a sluggish 2 percent. Yet, the average rate of price increase in the two periods is about the same.

What did it mean to more than double the rate of advance in real national output to over 5 percent during the more recent period?

—instead of the 4 million new jobs created between 1953 and 1960 there has been a 10½ million rise in civilian employment during the current expansion. Vigorous growth has made automation and technical progress forces for productivity, not threats to employment.

—instead of the 9 percent rise of the 1953–60 period an average income per person after all taxes and after allowance for price increases there has been a rise of 29 percent. This, despite the claim by some that taxes and inflation have been pulling us down.

—in terms of current prices, the value of the amount added to our gross national product since early 1961 is nearly $350 billion. This increase in the value of our production approximates the total national product of the European Economic Community or the Soviet Union in 1967.

To be sure, our prices have risen in the past 8 years, and have risen too rapidly under the increasing pressures of the war in Southeast Asia since mid-1965. But, among the industrialized nations which make up the Organization for Economic Cooperation and Development, the United States has had the best record of price stability since 1960. On the average, the 21 other nations experienced a 46 percent increase in consumer prices since 1960, nearly three times the increase in this country.

And, the recent record compares very favorably with our own record of 1953–60 when our growth was much slower:

—wholesale prices rose by 7½ percent, compared with a 9 percent increase in the previous 7¼ years.

—consumer prices rose 16 percent in the more recent period, 11 percent in the earlier period.

—the most comprehensive price index, the "GNP deflator," rose 16 percent in the most recent period and 18 percent in the earlier.

A table attached to the prepared text of my remarks presents further comparisons between the two periods. So much for the domestic record.

International Economic and Financial Developments

In an interdependent world economy, the better U.S. economic performance of the 1960's has also had dramatic effect internationally. The growth of the entire free world has picked up in this decade and the volume of trade has increased impressively. Just as economic growth has not solved all of our domestic problems, it still leaves unfinished tasks abroad. The international gap between affluence and poverty is still too wide. But a dynamic international economy, coupled with adequate flows of development finance, can help the less developed countries to break out of the vicious circle of poverty and inadequate investment.

I look back with pride to the fact that in 1961 I was a member of the U.S. delegation to the then new Organization for Economic Cooperation and Development (OECD). We startled that meeting by proposing that the member

nations adopt a common goal of 50 percent economic growth during the 1960's. It is scarcely surprising that our cables home indicated that the response of some of our European friends was somewhat patronizing in view of the sluggish U.S. performance from 1953 through 1960, when the growth rate of the European member countries of OECD averaged 4.8 percent a year, more than double our own growth rate. But, the ambitious 50 percent target was accepted by OECD despite the other countries doubts about the United States.

When the OECD conducted its mid-decade review of growth performance in 1966, it found that real output in the 21 member countries had risen by 27 percent in the period 1960–65—an average rate of expansion of nearly 5 percent a year. Excluding Japan (which was not an OECD member in 1961) the output expansion was 4.7 percent—well above the 4.1 percent rate required to meet the 1970 objective that had seemed so ambitious in 1961. As the OECD mid-decade report stated: "* * * faster expansion in the United States, which accounts for more than one-half of the GNP in the OECD area, played an overwhelming part in raising the rate for the whole area."

Stronger growth among the member nations of the OECD and the entire world economy amounts to more than simple addition of the separate achievements of individual nations. The whole is more than the sum of its parts. A rising volume of trade because of growth stimulates still further growth. Expansion in each country means greater trade opportunities for all others. As the world's largest trade nation the United States obviously plays a key role. For example, the United States absorbed almost one-fifth of the total exports among OECD countries in 1965.

The mutual interaction of growth at home and trade abroad is basic to continued international economic progress. Recognition of this fact goes back to the Reciprocal Trade Agreements Act of the 1930's and has found recent expression in the reciprocal reduction of tariff barriers in the Kennedy Round of trade negotiations.

World trade, as measured by imports, has increased at an annual average rate of 7.6 percent since 1950. It has advanced from $58 billion in 1950 to over $200 billion in 1967, an increase of about 246 percent, or about 2½ times.

The increase in the national product of the free world has been commensurate, and in real terms has more than doubled since 1950. For the postwar period as a whole it is estimated to have grown two to three times.

But the big flaw in this record is the disparity between the advance of the so-called developed countries and the less developed countries—and even between some of the latter who have been successful in moving their economies to the "takeoff" stage and those which have not.

Economic growth and social progress

Economic growth alone will not solve all our problems. But the recent record demonstrates clearly that vigorous economic growth remains the most powerful social weapon at our disposal. Consider the benefits that have accrued domestically as a result of the vigorous growth of recent years, from 1960 to 1967:

—thirteen million Americans have moved out of the poverty category.

—eleven million more families achieved yearly incomes above $10,000, 2½ times the number in 1960.

—five million more Americans own stock than in 1963, 23 million more have savings accounts.

—home ownership has risen to 37 million from 33 million in 1960.

Economic growth does not insure social justice or end the practice of discrimination. But, the more rapid economic growth of recent years is bringing substantial gains to minority groups and giving an added degree of dignity and security to millions of Americans. As President Johnson has pointed out, more Negroes and other nonwhites have risen above poverty in the last 2 years than in all the previous 6 years of the decade. Between 1960 and 1967:

—the proportion of nonwhite families earning over $8,000 (adjusted for price changes) more than doubled—from 13 percent to 27 percent.

—the number of nonwhite white-collar workers, craftsmen, and operators jumped 47 percent. One-half of all nonwhite workers now hold these better paying jobs.

—and, most significantly for the future, the education gap between young whites and nonwhites as measured by years of school experience, has been cut

to less than one-half year (12.2 years for nonwhites compared to 12.6 for whites). Statistics show that a U.S. Negro is more likely to go on to college than any citizen in a West European country except for France.

While racial strife and discontent have received the glare of publicity in recent years, vast economic gains have been made by previously disadvantaged groups. This is one of the real domestic "success stories" of the 1960's: the widening of economic opportunities for all of our citizens. The vehicle for social reform has been the expansion of the whole economy, not the redistribution of existing income. We have not reduced the living standard of the middle-income and upper-income families to raise the living standard of the poor. Instead all groups have gained together. The task of future years will be to continue, and even accelerate, the process which has already given millions of Americans new hope.

Sheer economic growth does not assure advances in the field of education and health any more than insuring social justice. But the record is clear, the enormous income we have earned in the past 8 years has provided unprecedented advances in these areas. Of course, we have lived quite a bit better—our expenditures on personal consumption have expanded by about 41 percent. But growth has made possible an allocation of substantially increased amounts to education and health. Our total public and private expenditures on education have increased from $27 billion to $52 billion today. Our total public and private expenditures on health have increased from $27 billion in 1960 to $50 billion today.

The impressive record of economic growth which the United States has registered in recent years is not only important for the domestic advantages it has yielded. In addition, the expansion of our economy has provided benefits for the developing nations of the world in their struggle for self-sufficiency, self-respect, and a better life.

Proven tools of economic progress

The experience of the past 7½ years, and earlier experience as well, has proven the value of the use of a range of key policy tools in the pursuit of economic progress. Fortunately, such use is no longer the subject of acrimonious political debate—and it should not be. Differences of emphasis and interpretation still remain but there is a widening and significant area of agreement.

For present purposes, the key elements in our economic strategy can be grouped under four main headings. These are: structural policies, flexible and coordinated fiscal and monetary policies, cooperation between labor, management, and Government, and international policy coordination and cooperation. Each has made, and can continue to make, a distinctive contribution to the promotion of our economic welfare. I will comment briefly on each, before turning to the crucial question of how continuity of proven policies and programs can be provided in 1969.

Structural Policies

One of the first steps taken by the incoming Kennedy Administration was to redouble the incentives for greater private domestic investment in new plant and equipment. The Revenue Act of 1962 granted a tax credit of 7 percent on new investment in machinery and equipment, and in that same year the Treasury reformed and liberalized the tax treatment of depreciation. Together with the cut in the corporate tax rate contained in the Revenue Act of 1964, these measures raised the profitability of a typical investment in new equipment by more than one-third. Because of the Vietnam situation, it proved necessary to suspend the investment tax credit temporarily and also impose the current surcharge. However, the bulk of that extra incentive remains with the lifting of the suspension and the use of tax reduction to stimulate investment incentives and unleash the productive energies of the private sector has been amply demonstrated.

For example, our total annual investment in plant and equipment, the creative capital goods area which is the key to both growth and productivity, has rapidly increased from a level of approximately $35 billion in 1960 to approximately $65 billion today. Our total annual investment in manufacturing has increased from $14.5 billion in 1960 to about $28 billion today.

The reductions in Federal taxes in 1962, 1964, and 1965 amounted to approximately $24 billion in terms of 1967 income. Even with the recently enacted temporary surcharge on income taxes less than one-half of these tax reductions have been borrowed back, and income tax rates are much lower than they were in 1960.

Despite the fact that State and local taxes have consistently increased during this period, the reductions in Federal taxes have kept the United States in the category of industrial nations with the lowest percentage of gross national product being drawn off through public taxation.

The Federal tax system must be kept fair and equitable in the light of changing conditions. We have, in the last 8 years, clearly recognized this challenge. The Revenue Acts of 1962 and 1964 contributed more to tax revision in the interest of fairness than the total of all measures since the revisions of World War II. In 1965 the excise tax revisions swept away the jumble of discriminatory measures that had been a legacy of past needs to raise revenues in wartime situations. Since then the Treasury has recommended action in a number of areas, such as foundations, acquisitions of businesses by tax-exempt organizations, revision of the tax treatment of the elderly, and the abuse of industrial development bonds. The Congress has taken action in some matters such as industrial development bonds and in other areas the problems are still on the legislative docket.

The combination of sustained and substantial growth in personal and corporate income, tax reduction, and higher returns on savings have had a dynamic effect on capital savings. The savings of the American people were $399 billion in 1960 and are $677 billion today. The net working capital of our nonbanking business institutions came to $132 billion in 1960 and is $205 billion today. The resources of our commercial banks, savings and loan institutions and mutual savings banks were $370 billion in 1960 and are $666 billion today.

New initiative, new policies, and new resources devoted to manpower training and the provision of economic opportunities have assumed significance as an important structural economic policy as well as a means of showing compassion for those who lack adequate or equal economic opportunity. In recent years, the development of intensified public policy and imaginative efforts in private industry in manpower training have constituted an attack on structural unemployment. This makes taxpayers out of tax consumers, reduces the trade-off point between unemployment and inflation, and lessens the risk of dependence on excessive demand as an answer to the unemployment problem.

Sizable investment in these activities and the underlying educative capacity that make manpower training meaningful, coupled with the investment in tools of production, have become recognized as essential to the successful pursuit of the economics of growth.

Flexible and Coordinated Fiscal and Monetary Policies

The adjustment and coordination of fiscal and monetary policies to assure a stable, balanced, and dynamic economy will be an underlying fundamental for economic life in the years ahead—as it has been in the years just past. During the first two-thirds of the current expansion, fiscal and monetary policy were geared together to stimulate the domestic economy while keeping short term interest rates reasonably aligned with key rates abroad. The more active use of fiscal policy enabled monetary policy to remain in an accommodating posture, without the sharp swings from ease to tightness that had been characteristic of the 1950's.

Since mid-1965 fiscal and monetary policy have faced further difficult tasks. While there was a difference of opinion in late 1965 as to the appropriate timing of monetary action, fiscal and monetary policies have continued to be coordinated in the interest of domestic stability and the balance of payments. The long legislative delay in enactment of the recent fiscal restraint package was obviously unfortunate. However, fiscal policy has once again assumed a major role in stabilization policy.

During recent years, it has been demonstrated that fiscal policy can be used to stimulate and to restrain. Combined with a flexible and responsive monetary policy, fiscal action can help insure that growth in total spending and productive capacity will be kept in reasonable correspondence. Without a close degree of coordination between fiscal and monetary policy, we run the risk of returning to the old cycle of expansion and contraction: boom and bust. But, the lesson of recent years is that the economy can be kept in steady expansion.

Cooperation Between Labor, Management, and Government

A remarkable degree of cooperation, understanding, and mutual confidence between business and labor and Government has gradually emerged in recent

years. As we have pursued policies to fashion a better balance between the public and private sectors, business and labor and Government have moved together in a growing partnership for progress. They have discovered that by pulling together they can achieve much more than by pulling apart.

A key problem remains to be solved: wage-price stability at high levels of employment. Even with sound monetary and fiscal policies, wage-price stability depends upon the determination of American business and American labor to avoid wage rises that outdistance our gains in productivity and take the national interest into account in pricing decisions. Wage and price stability is vital to both our balance of payments and our domestic progress—business and labor and Government have a joint responsibility to cooperate in its achievement.

International Policy Coordination and Cooperation in Economic and Financial Areas

Recent years have seen an unprecedented degree of cooperation in the international economic and financial fields. Let me note just a few areas of cooperation:

—The General Arrangements to Borrow that give a much needed backstop to the resources of the International Monetary Fund.

—The huge currency swap networks, now totaling almost $10 billion, that provide a first line of defense against disruptive currency speculation.

—The cooperative arrangements to offset the foreign exchange costs of our military deployments that have protected our balance of payments from larger drains.

—The expansion of multilateral aid to developing nations through the Inter-American Development Bank and the International Development Association, and the creation of the Asian Development Bank.

—The cooperative efforts to assist nations that have found themselves in temporary monetary difficulties—Canada, the United Kingdom, Italy, and, more recently, France.

I must take particular note of the agreement on drawing rights. This historic development, at U.S. initiative, took years of patient negotiation and study. It holds out promise for the first time that eventually the world economy can be freed from dependence upon increases in monetary gold stocks and balance of payments deficits of reserve currency countries. It means that the world now has a way to expand trade and finance among nations with confidence that monetary reserves will grow sufficiently to make this flow of trade and finance possible.

The progress in all these areas has occurred during a period of formidable pressures on the international financial system and on our own balance of payments. Even though there is a period of relative calm, let no one assume that we have solved our own balance of payments problems or completed the work of improving the international monetary system. This is far from being true. But as a Nation we have come to grips with the problem: the President laid down a forceful corrective program on January 1, the Congress has responded with action for fiscal responsibility, and a substantial part of the remaining elements of the program is in effect and yielding results.

Cooperation is the common thread running through these and other accomplishments internationally. Increasingly, the advanced countries of the world are sharing the responsibility on a multilateral free world scale for an improved trade and payments system, mutual security arrangements that are soundly and fairly financed, and an expanding system of development aid and finance.

Providing continuity of proven policies and programs in 1969

Now the future requires our attention. Even in a political year, there is much upon which men of good will can agree. As a Nation we are committed to the defense of freedom and the enlargement of opportunity—at home and abroad. Great tasks lie before us. We must keep the economy growing and productive, the Nation's finances in reasonable balance, and the dollar sound and respected.

Our basic economic objectives include: an adequate rate of growth, reasonably full employment, and reasonable price stability. Because of the special role of the U.S. economy and the dollar in the free world monetary system, a fourth fundamental objective has emerged—the achievement and maintenance of equilibrium in our international balance of payments.

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All are agreed that the foundation of all our national efforts will be an economy moving towards these objectives, providing ever new opportunities and an ample scope for individual, corporate and collective initiative.

There will be substantial differences as to the choice of means designed to achieve these objectives. These differences will reflect certain philosophical or pragmatic preferences.

But all should agree that the immediate task is to provide for continuity of proven policies and programs in 1969, so that the incoming administration—whether Democratic or Republican—can press ahead with the Nation's business, while fashioning the innovations and initiatives that seem desirable.

There are a number of areas in which continuity will be essential, and others in which continuity appears to be desirable until and unless suitable alternatives are devised and accepted.

First, the immediate problem for 1969 will be to adapt the fiscal and monetary mix to meaningful changes in the international situation and the process of achieving that degree of "dis-inflation" at home that will move the economy steadily toward reasonable price stability without too much of or too long a sacrifice in the rate of growth and job creation.

The current policy of fiscal and monetary restraint is directed toward restoring a reasonable degree of price stability by a moderation of the rate of growth from the excessive levels of the past year or so.

The task of monetary policy, now conjoined to the massive shift from fiscal stimulus to fiscal restraint provided by the recently enacted revenue act and the increases in social security taxes, scheduled for January 1, was indicated in the recently published June statement of the Federal Reserve Open Market Committee:

"* * * it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of reasonable equilibrium in the country's balance of payments, while taking account of the potential impact of developments with respect to fiscal legislation."

Apart from the utilization of timely monetary policy, fiscal policy options which will be available to the new administration and the new Congress in the first 6 months of calendar 1969 are:

(a) The extent to which there will be a fuller funding of pressing domestic programs, as well as provisions for built-in or unavoidable Federal spending increases for social security and salary adjustments for Federal employees already voted.

(b) The decision, unavoidable by reason of the fact the recently enacted 10 percent surcharge expires on June 30, that tax must be extended, reduced or allowed to terminate.

I will content myself for the present by noting that these extremely important—even crucial—decisions will have to be made very early next year and take into account the state of the private economy and the outlook for defense expenditures, both important variables which have a disconcerting way of defying precise prediction well in advance.

Flexibility is the watchword in this area, as it has been since 1965.

A second area where continuity of policy will be highly important in 1969, but is far from being mastered, is the coupling of auxiliary or supplementary policies to complete the process of dis-inflation, now the prime target of the fiscal-monetary mix to restore reasonable price stability.

Effective price competition, a return to a closer relationship between increases in wages and productivity, some temporary absorption of increased costs out of profits, attacks on some of the structural areas such as construction and medical costs now being charted by the Cabinet Committee on Price Stability, should be important elements of program follow-through in 1969.

These programs for restoring price stability are also fundamental to the achievement of a healthy, enduring equilibrium in our international balance of payments based on competitive capacity in markets at home and abroad.

The association of inflation with low levels of unemployment is clearly an unsolved problem of the first magnitude. Every major Western nation has recognized the unemployment-inflation problem and has experimented with instruments of restraint. Our own experience with the wage-price guideposts developed by the Council of Economic Advisers was very encouraging until 1966, when excessive demand and lower rates of productivity resulting in increased prices and unit labor costs disrupted the previous even pattern of expansion.

Now that the problem of excessive demand has been tackled, the focus of scrutiny of the Cabinet Committte on Price Stability is how to effect a return to a workable pattern of wage-price stability.

Appropriate monetary and fiscal policies are, of course, absolutely indispensable in the achievement of rapid economic growth with reasonably full employment without inflation. But many ask: Can we not achieve these objectives merely through finer tuning of our monetary and fiscal restraints? Unfortunately, the answer is "no." The world would be much simpler were it otherwise. And, there was a time when many of us were confident that monetary and fiscal policy could do the job alone. But both American economic history and the experience of every Western nation speak eloquently that monetary and fiscal policy, alone, are not enough.

This Administration did not discover this dilemma, nor is it a partisan issue. After having grappled with it for 7 years, President Eisenhower observed in his 1960 Economic Report:

"* * * Fiscal and monetary policies, which are powerful instruments for preventing the development of inflationary pressures, can effectively reinforce one another.

"But these Government policies must be supplemented by appropriate private actions, especially with respect to profits and wages. In our system of free competitive enterprise and shared responsibiilty, we do not rely on Government alone for the achievement of inflation-free economic growth. On the contrary, that achievement requires a blending of suitable private actions and public policies. Our success in realizing the opportunities that lie ahead will therefore depend in large part upon the ways in which business management, labor leaders, and consumers perform their own economic functions."

A 1961 report to the Economic Policy Committee of the OECD noted that "most governments have now come to believe that, under conditions of full employment, management of the general level of demand will often need to be supplemented by more specific measures for promoting price stability." The report specified policies designed to prevent acute excess-demand conditions in particular sectors; policies designed to speed the adaption of supply in excess-demand conditions; and policies designed to influence determination of incomes and prices.

The guideposts of the Council of Economic Advisers explicitly treated the problem of discretionary power in the market place. They were a plea for abstention—in money terms, an appeal to accept less than is within their power to take. If we are free to decide, we must be content to live with our decisions and to be judged on them. But standards are necessary if the judgment is to be fair and constructive. The guideposts were an attempt to develop such standards. Can we advise better standards? Can we create institutions that implement them more effectively? Questions like these have been raised in all the major Western capitals. Hard as they are, they cannot be avoided in 1969.

A third area for policy continuity in 1969 is tax reform. After the reforms of the Revenue Acts of 1962 and 1964 and 1965, the Treasury Department undertook a major effort to prepare tax reform proposals of a comprehensive nature in 1966 and 1967. The plan was to launch a major legislative effort on the heels of the enactment of the temporary surcharge legislation. Because of the delays in enacting the surcharge legislation and the fact that substantial tax reform requires extensive legislative consideration, there was no suitable opportunity to push these proposals on to the legislative calendar.

It is clear that tax reform must be a matter of high priority as respects tax policy and the work of the Congress. I and my associates in the Treasury have called attention to some of the areas that we feel should be given consideration. As one example, there is the impact of our present tax system on those in poverty. A country concerned about the plight of the poor should certainly be concerned about not imposing an income tax burden on them, and indeed the Revenue Act of 1968 made this principle clear by not imposing the 10 percent surcharge on low income taxpayers. At the other end of the scale is the serious problem of those taxpayers with very high annual incomes who make little or no contribution to the Federal Government because of the use, singly or in combination, of many of the tax preferences adopted for particular purposes. There is also need for an extensive, searching review of the rules under the estate and gift taxes and the associated question of the treatment of transfers of appreciated assets at death under the income tax.

Two cardinal principles should guide us in considering tax reform. One is that the standards of equity and fairness and desirability must be applied in the con-

text of the world today. Tax provisions adopted to serve certain needs in the past must constantly be tested to see if they are still appropriate. We must ask what is the net benefit to the nation from such a provision in terms of the present cost—what is the efficiency and effectiveness of the tax provision as contrasted with other forms of Government assistance that may not have the side-effects of income tax liberality to individuals or corporations that accompany the use of the tax route?

The second principle is that change from yesterday's rule to today's new need must be orderly and fair, so that those who had planned their businesses or lives on the basis of the earlier provisions may have an orderly transition to the new standards. But it is orderly transition that I am emphasizing and not stagnation or indefinite postponement of any change, for tax preferences should not be a hereditary matter handed down from one generation to the next.

A fourth area where a beginning has been made and more needs to be done is in manpower training and the encouragement to civilian technology and education. There is still a relatively untapped resource in those of our citizens who are unemployed and underemployed. The wastes of unemployment are obvious. In addition, in far too many cases people are working in unskilled jobs and failing to utilize their full potential. Technological change has an unsatiable appetite for higher and higher job skills, and before many more decades have passed there may be little demand and only meager compensation for the services of the underskilled or the uneducated.

One of the great challenges of our time is to harness the great capacity of the private sector to our system of public education and training, so as to make it possible for all of our population to share in the opportunities now available for the more fortunate. That challenge will not be finally met within 1969. But, the stakes are so high that there should be no interruption of the national effort in this area.

A fifth area for policy and program continuity is the reestablishment and maintenance of stable equilibrium in the U.S. balance of payments. This calls for a vigorous followthrough on all elements of President Johnson's New Year's Day program, rather than a dismantling of some parts, as some suggest. This program encompasses a series of direct action measures on specific accounts as well as use of fiscal restraint by the Government and voluntary restraint by management and labor in price-wage and work stoppages affecting foreign trade.

The President's program—a stern and stiff one—won no cheers in an election year. It called for increased taxes, a holddown in domestic spending and decreased Government overseas expenditures or their neutralization by compensating measures. It urged less spending by Americans touring foreign lands and restrained money flows from the United States for U. S. investment and loans abroad, while encouraging combined public and private effort to encourage foreign tourism and investment in the United States.

Part of this program has been executed and in those areas it is working. Indeed, some of the results could lead to public overconfidence.

The last report on our balance of payments covering the second quarter of 1968 showed a small deficit of $150 million on a liquidity basis and a sizable surplus in the official settlements basis. This result was in sharp contrast to the large and unacceptable deficits in the previous quarter on both bases.

The progress achieved was in the movements of capital and not the current account which deteriorated with a declining trade surplus and a big tourist deficit. Welcome as it is, this progress was unbalanced, and some elements cannot be relied upon consistently. Some parts of the program, such as those designed to restore a healthy trade surplus, are only getting under way, and those dealing with the travel deficit have not been approved by the Congress.

The entire program must be applied. If it is not applied in its entirety this year, it will have to be applied next year regardless of what national administration is in power. It is, quite simply, a problem beyond politics.

The national objective embodied in the program must be pursued in full bipartisanship if the nation is to assure the strength of the dollar and the international monetary system.

The hard, gritty work of continuing to reduce our Government expenditures abroad, or neutralize them through arrangements bilaterally negotiated, should continue unabated.

The nation must carry through to the full the workable programs of combining private and public effort to increase foreign investment and travel in the United States which have been submitted.

Our exports must be helped to rise—by responsible labor and management decisions on wages and prices, by continued negotiation of reduction of non-tariff barriers of our goods abroad, and by following through on the special measures for financing and promotion of American exports that have been initiated.

By doing less than a complete job in these areas of long term significance, we would be gambling with the future of our own prosperity and that of the free world and delaying the time when the temporary restraints in capital flows can be eliminated.

A sixth key area for policy continuity concerns the persistent and steady effort to provide leadership for and participation in international financial co-operation designed to improve constantly the working of the international monetary system to encourage trade and economic development.

This means in the monetary field the activation in 1969 of the Special Drawing Rights machinery to provide by deliberate decision over the years ahead new reserve assets, supplemental to gold and dollars. This activation should provide the degree of liquidity needed to accommodate a growing free world and facilitate the working of the adjustment process in an environment where monetary authorities of surplus countries are reluctant to lose reserves steadily.

In addition to activating the Special Drawing Rights, continuity of U.S. policy in 1969 should look to participation in any official multilateral studies for improving the international monetary system in a world which includes Special Drawing Rights.

Another area of international financial cooperation calls not merely for continuity of policy but for an acceleration of effort to improve and increase the role and effectiveness of multilateral development finance institutions and private investment in meeting foreign exchange and developmental needs of the less developed countries. Action in this area should go forward to a far greater degree than has been the case thus far in the sixties.

As a group, the developing countries have, during the 1960's achieved an average growth of 4.5 percent per year—impressive, but not significantly improved from the record of growth during the decade of the 1950's, and still slightly below the U.N. Development Decade target of an annual 5 percent increase in gross national product. Moreover, half of the growth which was achieved was absorbed by the population increases in the developing nations, so that on a per capita basis economic growth has averaged only 2.3 percent per year for the developing world as a whole.

But it can be misleading to try to generalize about the area covering all of Africa, Asia and Latin America which accounts for two-thirds of the world's population. These averages mask wide variations in the performance of the different countries and regions.

A number of those countries which are counted among the wealthier and more highly developed of the developing nations have made further rapid strides in recent years. For example, Greece and Israel have achieved an average growth rate of about 8½ percent a year or so since 1960, a rate which would double their national production in 8½ years.

There have also been major success stories in some of the poorer of the less developed nations. Among those with per capita income of less than $600 per year, there are six countries—Taiwan, Jordan, Panama, Nicaragua, Korea, and Thailand—which have achieved high growth rates during the 1960's, varying from 9.7 percent per year for Taiwan, to 7.2 percent for Thailand. This means that those six countries can double their 1960 GNP within the decade if they maintain their rate of advance.

These "success stories" represent in population less than 10 percent of the total. The remainder have seen no such spectacular results and for many the history of the '60's has been only one of grim disappointment. The whole of underdeveloped Africa has during this decade recorded a per capita economic growth of only 1 percent a year. South Asia with a population larger than the Continent of Africa and Latin America combined has recorded per capita growth of only one-half of 1 percent a year. Advancement for many countries has been depressingly slow and some have achieved no growth at all.

It is perhaps noteworthy that most countries which have achieved rapid growth have benefited from sound economic planning, good budgetary and monetary policies and a strong currency that has encouraged domestic savings and attracted foreign investment. And, importantly, it is apparent that those de-

veloping countries who have grown most rapidly have benefited from very large amounts of foreign assistance or other capital inflows from abroad.

Against this backdrop, an acceptance of the drastic proposed reduction in appropriations for foreign aid and a continued failure of the Congress to provide the U.S. share of a replenishment of the funds of the International Development Association of the World Bank would be tragic. It would destroy worldwide hopes for significant progress in multilateral development finance in 1969 and signal a dismal retreat from the realities of the struggle for continued economic progress.

Conclusion

Now summing up, in the period just ahead there will be a transition and a time of change, irrespective of which political party wins in November. But there should also be a continuity in economic policy and in established national economic objectives. Proven tools of economic and social progress are not the exclusive property of any administration or political party. In the economic and financial areas, we must all work together responsibly to insure that there is continuity, as well as change.

Indicator	1961–I (or February 1961) to 1968–II (or June 1968)		1953–I (or February 1953) to 1960–II (or June 1960)	
	Absolute change [1]	*Percent change*	*Absolute change* [1]	*Percent change*
Gross national product:				
Current prices	+$349,000,000,000	+69.4	+$141,000,000,000	+38.6
1968–II prices	+$268,000,000,000	+46	+$94,000,000,000	+19
Industrial production		+59.5		+18.7
Employment	+10,456,000	+15.9	+4,283,000	+6.9
Unemployment rate	Down from 6.9% to 3.8%		Up from 2.6% to 5.4%	
Number of months below 4 percent	30 months		19 months	
Personal income	+$272,000,000,000	+66.8	+$116,000,000,000	+40.8
Aftertax personal income	+$232,000,000,000	+65.2	+$101,000,000,000	+40.6
Aftertax personal income for family of 4	+$3,908	+50.3	+$1,488	+23.7
Per capita disposable personal income (1958 prices)	+$603	+32.2	+$171	+9.9
Aftertax corporate profits	+$26,000,000,000	+107.8	+$6,000,000,000	+28.1
Net farm income	+$2,000,000,000	+15.6	−$1,400,000,000	−10.4
Number of recessions	None		Three	

[1] Current prices except as indicated.

Exhibit 13.—Statement by Secretary Barr, January 17, 1969, before the Joint Economic Committee

I appreciate the opportunity to meet with this distinguished committee. I think it extremely important that the members have the economic rationale for the financial plan President Johnson has recommended to the Congress—a plan that is responsible and realistic in terms of the country's needs and resources, and that is consistent with our responsibilities to keep the dollar strong and respected.

Before getting into the body of my remarks, I want to take a moment to pay tribute to you, Mr. Chairman, to the Vice Chairman, Mr. Patman, and to the members of the committee. Under your leadership, the work of this committee has contributed greatly to the tremendous growth of public interest in economic issues, to better informed public attitudes on economic policy, and to the record economic progress the United States has achieved.

The economy is now in the 95th month of the most sustained and vigorous period of economic expansion in our country's entire history. There is no need for me to enumerate here the many economic records established during this period of unprecedented prosperity. I believe that in his state of the Union message and in his Economic Report to the Congress the President clearly established that the economy is now stronger and more vigorous than ever before, with production, employment, and aftertax income, including both wages and profits, all at record highs, far above the levels of a decade ago.

And I want to emphasize that this isn't just a dollar prosperity. The purchasing power of the average American—the real goods he can buy with his dollar

income aftertaxes—has actually increased by 31 percent between 1960 and 1968. This, gentlemen, is the basic definition of economic progress.

Perhaps an even more significant aspect of our economic well-being is that it is probably being shared by a broader segment of our population than during any previous time of great prosperity. Not only have business profits soared to record highs but the unemployment rate has been sharply reduced—particularly among minority groups who have not adequately shared in economic gains of the past. Much remains to be done in this key area of national policy, but it is clear that significant progress has been made in removing barriers and expanding job opportunities for our underprivileged citizens.

However, we must recognize that serious economic problems must still be overcome. The increase in consumer prices in the past year of nearly 4 percent is certainly larger than we can tolerate for very long. Although a small balance of payments surplus was achieved in 1968, vigorous efforts must continue to maintain this record in the current year.

Today I want to go beyond the overall indicators of a prosperous economy and in a sense see whether the financial underpinning of our economy will support continued sound expansion in the years to come. I also want to review briefly a few items of major, unfinished business that will bear heavily on our future economic growth and, in some instances, that of the entire free world.

Probably the most important single component of this financial underpinning of our economy is the Federal budget. A properly designed budget should reflect what the country needs, what it can afford and what the Congress can be expected to do. In my judgment President Johnson has presented to the Congress a budget that fully meets this standard. In fiscal 1969 the budget is expected to be strongly in the black, with outlays of $183.7 billion, revenues of $186.1 billion and a surplus of $2.4 billion. For fiscal 1970 we have projected an even larger surplus of $3.4 billion.

In fiscal 1970 budget receipts are estimated at $198.7 billion, an increase of $12.6 billion over the estimate for fiscal 1969. Outlays in fiscal 1970 are projected at $195.3 billion. The estimated increase in fiscal 1970 Federal revenue is due almost entirely to anticipated economic growth. For calendar 1969 we have projected a gross national product of $921 billion, personal income of $736 billion and corporate profits of $96 billion.

Now there is nothing inherently good or bad in itself about a budget surplus or deficit. The test is whether it contributes to the economic strength of our country. And a budget does this only when it is consistent with current and prospective economic realities.

In the context of the economy as we see it, a Federal budget surplus for fiscal years 1969 and 1970 is necessary for several important reasons.

First, a budget surplus will tend to restrain overall private demand during a time when our productive capacity is straining hard to meet the demands thrust upon it. Second, a budget surplus means that during this period the Treasury will not on balance be competing for funds in our already hard-pressed credit markets. In fact, in fiscal 1969 and 1970 taken as a whole, the Treasury will actually be adding funds to the private credit markets in contrast to the situation in 1969 when $23.1 billion had to be drawn from private investors. This healthy situation means greater freedom for the Federal Reserve to establish effective monetary policies, and more ready access to private savings by private users of credit and State and local governments—borrowers who have had a rough time in past tight money periods. In this context the homebuilding industry in particular should greatly benefit.

A third important reason for maintaining a Federal budget surplus at this time is that it will strengthen the hand of our negotiators during the critical period in which we will be working to improve and modernize the international monetary structure.

The Federal Government influences economic activity and the distribution of income not only through direct expenditures and loan programs but also through special tax provisions. A dollar foregone through a special tax provision is no different than a dollar spent through a budget outlay. In other words, these tax expenditures use budget resources in the same way that direct expenditures or net lending do. In most cases, the special tax provisions are alternatives to direct expenditures or net lending to achieve the same purpose.

The Annual Report of the Secretary of the Treasury for fiscal year 1968, which was issued this week, contains for the first time a detailed description

and discussion of these tax expenditures and estimates of the amounts involved.[1] To bring this material up to date, the Treasury staff has prepared an analysis of tax expenditures related to the budget for fiscal year 1970 which I am submitting as a supplement to my statement. The revenue costs of the special tax provisions are presented alongside the budget outlays. This makes it possible to get a more complete picture of total Government expenditures for various functions. You may be surprised to find that tax expenditures approach or even surpass the budget outlay for certain functions.

The purpose of this special analysis is to present information which will help us to use budget resources most effectively. We can obtain more efficient use of resources by the Federal Government if explicit account is taken of all calls upon budget resources. In this way the importance of different budgetary objectives and the effectiveness of alternative uses, whether through direct expenditures, loan subsidies, or tax expenditures, may be fully understood, examined, and reevaluated periodically.

I should inject a note of warning at this point. As the committee knows, the whole subject of tax expenditures is highly controversial and the figures presented in this Treasury report are themselves certain to be controversial. The figures may vary depending on the assumptions used, and we do not claim that our figures and assumptions are the last word. Perhaps the committee might want to have its staff analyze this document—perhaps in conjunction with the staffs of the Joint Committee on Internal Revenue Taxation and the Appropriations Committees. The staff of the Treasury will be pleased to cooperate. Many of the provisions in the Tax Code are virtually the same as appropriations and should be considered by the Congress as they review the various Federal programs.

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Let me turn now to four areas where I believe there is urgent need for action by the United States or by those nations whose economic future is closely linked with our own.

The need for tax reform

We have an income tax system which has demonstrated its strength—$128.3 billion of revenues expected in fiscal year 1970—and its flexibility. The income tax is one of our country's strongest assets, and we must strive to improve it and perfect it.

Our income tax system needs major reforms now, as a matter of importance and urgency. That system essentially depends on an accurate self-assessment by taxpayers. This, in turn, depends on widespread confidence that the tax laws and the tax administration are equitable, and that everyone is paying according to his ability to pay.

We face now the possibility of a taxpayer revolt if we do not soon make major reforms in our income taxes. The revolt will come not from the poor but from the tens of millions of middle-class families and individuals with incomes of $7,000 to $20,000, whose tax payments now generally are based on the full ordinary rates and who pay over half of our individual income taxes.

The middle classes are likely to revolt against income taxes not because of the level or amount of the taxes they must pay but because certain provisions of the tax laws unfairly lighten the burdens of others who can afford to pay. People are concerned and indeed angered about the high-income recipients who pay little or no Federal income taxes. For example, the extreme cases are 155 tax returns in 1967 with adjusted gross incomes above $200,000 on which no Federal income taxes were paid, including 21 with incomes above $1,000,000.

Judging from taxpayers' letters to the Treasury, I would say that many people are upset and impatient over the need for correcting these and other situations which demand our attention. In this connection, I should point out that the 10 percent surcharge has made many taxpayers more aware of the inequities in our present tax system and more demanding that reforms be adopted.

I believe public confidence in our income tax system is threatened and that tax reform should be a top priority subject for the new Administration and the 91st Congress.

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[1] See 1968 annual report, pages 322–340.

As you know, we at Treasury have been working on tax reform proposals for more than 2 years, and they are now ready. They will be turned over to Secretary-Designate Kennedy and, upon request, to the Congress.

I feel that the enactment of major reforms to substantially improve the fairness, simplicity, and neutrality of our income taxes are essential to continue and strengthen public confidence in our tax system.

The need for restoring the U.S. trade position

The international trade position of the United States is rapidly deteriorating. It is essential therefore that we make a forceful policy response to restore our trade account to a position of strength. Short of this, we will find a continuing upsurge in the already growing protectionist sentiment apparent in the country.

The answer to our trade problem does not lie in an overhauling of our tax system through the introduction of a value-added tax either in addition to or in lieu of our present taxes. The adverse domestic effects of such a move would far outweigh any small trade advantage which we might gain.

What we might well consider instead is our own system of border adjustments, encompassing both a tax on imports and a payment to exporters. The level of these adjustments would be unrelated to our domestic tax system. The rates would be set at whatever level is necessary to achieve our objective—a healthy trade surplus. This system should be established under the strict control of the General Agreement on Tariffs and Trade or other appropriate international body.

The need for action on the SDR facility

I would urge the member nations of the International Monetary Fund that have not yet completed action on the Special Drawing Rights Facility to do so promptly. Their ratification of the Proposed Amendment to the IMF Articles of Agreement establishing the SDR facility will bring closer the day when the world will be assured of an adequate growth in monetary reserves.

The SDR facility will be created when 67 member nations having 80 percent of the weighted votes in the Fund have ratified the Amendment, and when members having at least 75 percent of the quotas in the Fund have deposited with it an instrument of participation.

The United States completed action on the SDR facility on July 15, 1968. However, as of January 10 of this year, only 29 members of the Fund having 47½ percent of the total votes had ratified the Proposed Amendment.

After years of intensive negotiations, nations have neared establishment of a method for creating the monetary reserves needed by a rapidly growing world economy. We are near the goal of the most important reform in the international monetary system since the Bretton Woods Agreements of 1944. I earnestly hope that other nations and their governments will make it possible for the world to reach that goal within a period of weeks or months.

The need for support to mutilateral development institutions

I am also deeply concerned about two items of unfinished business in the field of multilateral development finance. Both—the replenishment of the International Development Association and the provision of special funds for the Asian Bank—involve institutions that I have been intimately involved with over the years. What we in the United States do in regard to these two institutions can have a profound effect on the well-being and the very lives of millions among the two-thirds of the world's population that has little to possess and still less to hope for.

As a freshman Congressman, I helped write the legislation for our participation in IDA. I have seen it in action in the field, in Asia in 1963 and in Africa in 1967. I know it is capably guided by the World Bank under Robert McNamara's sure hand.

IDA is, most importantly, serving in a growing way the primary function we had in mind in the late 1950's: it is mobilizing a greater share of development resources from the other advanced countries. It is putting these resources to work in an efficient and effective manner. Eighteen other countries put up a total substantially greater than our own. Our share in the effort has been reduced from 43 percent at the outset to 40 percent currently, meaning a cumulative transfer of the burden of about $150 million.

The contribution proposed for the United States—$160 million in each of 3 years—will have no adverse effect on the U.S. balance of payments, because we have obtained internationally agreed safeguards to ensure this.

But the entire IDA replenishment package cannot become effective unless the United States makes its contribution. I consider it of the highest urgency for the Congress to demonstrate again its consistent attitude of bipartisanship toward IDA by acting on the legislation that has been reintroduced in recent days.

While IDA's operations are worldwide, those of the Asian Bank are concentrated in the area of the world that has been torn by intense conflict and wracked by human misery for all too many years. In December 1965, I was privileged, along with Eugene Black, to sign the agreement establishing the Asian Development Bank, thus placing us firmly on the path of constructive multilateral development in Asia. Many members of the Congress and congressional staff members participated actively in the events leading up to the creation of the Asian Bank. It is now in being, with a distinguished staff and with an effective loan and technical assistance program moving forward.

However, the Bank needs additional resources—beyond its regular funds for conventional lending—for special lending programs on favorable terms in fields such as agriculture and transportation. The new budget proposes a $25 million U.S. contribution to Asian Bank special funds in 1969 and 1970, and I consider this action, already long delayed, as crucial to Asia and our total interests there.

These funds will help to encourage regional cooperation and peaceful development in Southeast Asia. Like our IDA contribution, we would be putting up only a minority share; Japan and other advanced countries will bear the major burden. And this contribution, too, will have no adverse balance of payments effect since it will finance U.S. goods and services.

I sincerely hope that both these vital programs will promptly receive the congressional support they deserve.

Exhibit 14.—Statement by Secretary Kennedy, February 12, 1969, at the Lincoln Day dinner, Dallas, Texas

I come to you tonight from the "Land of Lincoln" via the Potomac. While we from Illinois claim Abraham Lincoln as our own, I have found that every State in the union and indeed people from all over the world are students of and have some claim to Lincoln. Even in this Texas empire, I am sure there are many who would say that Mr. Lincoln was truly a great Texan.

As we study history and read more about the man—the President—Lincoln—we appreciate that he was a true citizen of all our country and that his acts and statements have become part of all time. Perhaps he realized this as in December 1862 he wrote the Congress: "In times like the present men should utter nothing for which they could not willingly be responsible through time and eternity."

At one point Lincoln confessed to a Kentucky friend: "I have been controlled by events" yet, at another point he plead with the Congress to break and forget past traditions—looking to the challenge of the future:

"The dogmas of the quiet past are inadequate for the stormy present. We must think anew, we must act anew, we must disenthrall ourselves."

Our country has turned again to new leadership to meet the challenge of the future. On January 20, Richard M. Nixon took the oath of office as the 37th President of the United States. In that moment of history, he became the President of all our people—democrats as well as republicans, poor as well as rich, black as well as white. In his inaugural address, he made it abundantly clear that he understands our problems and will seek solutions—and he, like Lincoln, engaged in war, will seek peace.

"We seek an open world—open to ideas, open to the exchange of goods and people—a world in which no people, great or small, will live in angry isolation."

I joined the Nixon Administration because I believe in the principles he has clearly enunciated and I believe he can accomplish peace abroad and unite our people at home.

As you know, the President is leaving shortly for the continent of Europe to reestablish relationships and undertake discussions which should lead to better understanding. Through this personal visit he will demonstrate his interest in working with our friends in Europe for peace and progress.

I was pleased—as I know you were—that last week President Nixon gave the full backing of his office to the Attorney General to take all steps necessary to make our streets and cities safe. Starting in the Nation's capital where crime has become perhaps more serious than in any of our cities, a series of actions have already been initiated—more patrolmen, more judges, etc. Every major city has a crime problem. The work of the Attorney General and his staff will require long and cooperative effort on the part of Federal, State, and local authorities. This is long overdue. It has the highest of priority.

Another "highest priority" of this Administration is to control inflation. If the kind of American economy we all want is to become a fact rather than a dream, inflation must be curbed. The kind of price increases we have experienced in recent years and months can carry the economy to the point where recession and accompanying higher unemployment naturally follow.

Confidence in the soundness of the dollar must be reestablished at home—as well as abroad. Large and increasing social programs of the so-called Great Society superimposed on ever increasing war costs resulted in a budget deficit of $25 billion in 1968. This caused an overheated economy and set off a wage-price spiral. I am sure that I do not need to tell any businessman here what that is doing to his future business prospects. Nor do I have to go into any detail to any housewife present who is trying to manage the family budget.

Consumer prices were relatively stable in the period 1960–65, rising only 1.3 percent per year. In 1966 and 1967, however, they began a sharp upward climb, and from the end of 1967 to the end of 1968 they rose by 4.7 percent. In the last quarter, the annual rate of increase jumped to almost 5 percent.

The budget released in January by President Johnson calls for a small surplus in the current fiscal year and for fiscal 1970. This is as it should be. It is, however, on the assumption that the surtax will be extended.

Federal outlays are expected to rise by $11.6 billion in fiscal year 1970 over the previous year—on the basis of legislation already passed by the Congress, higher Federal pay, increased interest on the debt, larger social security payments, etc.

I have said that this is a tight budget and there is very little time between now and next June to change expenditures for the current fiscal year. Indeed, some of the expenditures were understated in the budget for this year. There should be more opportunity for saving in 1970 and in subsequent years.

President Nixon has directed the Budget Director to review with each Department of the Government the expenditure budget item by item in order to redirect programs, establish priorities, and effect savings.

As I indicated, President Johnson's budget recommends an extension of the surtax for another year. There is no question in my mind that unless we can cut budget expenditures sufficiently the inflationary condition of the economy requires a continuation of the surtax. Under existing conditions we must have a reasonable budget surplus.

The Federal Reserve is firmly pursuing a restrictive credit policy designed to help curb inflation. Thus both fiscal and monetary policy are joined in an effort to reduce inflationary pressures. I believe these efforts can and will be successful. The measures are designed to slow, not stop, economic activity—to reduce the pressure on the boiler in a reasonable, gradual way. These actions are designed to provide a climate for more real, sustainable growth and to restore confidence in the dollar at home and abroad.

One heavy price we have paid for these inflationary conditions is in higher interest rates. The highest since the Civil War—Lincoln's time. As inflationary pressures are brought under control, interest rates should decline to more normal levels.

Another area of great concern is our chronic balance of payments problem. We must not be misled by the small reported surplus for last calendar year. Confidence abroad in the dollar was increased when the surtax passed last year. Troubles abroad also perhaps had some effect on the willingness of foreigners to hold dollars. Also, there were large capital movements into this country into the stock market. These movements help on a one-time basis. They can be reversed.

When we look behind the figures, we have reason to be concerned. Our favorable trade balance, which for many years amounted to $4 billion to $5 billion, has gradually disappeared. Largely because of the inflation of the last few years, we have become less competitive in world markets, and imports have increased substantially. A return to price stability is absolutely essential if our balance

of payments is to get into anything like equilibrium and the dollar's strength is to be maintained.

It will be necessary to ask Congress for an immediate increase in the debt limit. President Nixon and I discussed this with Chairman Mills and Congressman Byrnes of the House Ways and Means Committee and we will send a request to the Congress shortly. On January 21, the total debt subject to the $365 billion ceiling—or outside limit—was $364.2 billion—a leeway of only $800 million. Our estimates indicate that in mid-March and again in mid-April—just before the heavy tax receipts come in—we shall be very low on cash and close to or above the limit. By June 30, our figures indicate, we will be within the ceiling of $358 billion which is effective on that date. Yet, there is no room for any contingency. There will be need to increase the limit to meet the projected budget for fiscal 1970.

A final matter that I will comment on briefly tonight is tax reform. Hearings will begin this month in the House Ways and Means Committee. President Nixon has emphasized that tax reform and equitable tax administration will have a high priority in his administration. He has requested me to begin promptly a review of the tax structure and submit to the Congress the Administration's proposals.

First, we have the question of equity. Are all Americans in similar circumstances paying approximately the same amount of taxes? Recent testimony by the outgoing Secretary of the Treasury suggests that they are not. We are now developing our own tax reform proposals. We will review and draw on the recently released Treasury study and proposals prepared by the last Administration. But the recommendations for tax reform which we expect to present to the Committee on Ways and Means will be the recommendations of the Nixon Administration.

Second, at President Nixon's direction, the Treasury Department is giving careful consideration to proposals for the responsible use of tax incentives to encourage private business to participate to a greater extent in improving economic and social conditions in poverty areas. Attention is being given especially to tax incentives to improve employment and income opportunities for poverty area residents.

The Treasury Department is giving high priority attention to these two questions of tax reform and tax incentives. We expect to make at least our first recommendations on these matters to the President, and as appropriate, to the Congress as soon as possible.

Third, our whole tax system—State and local, as well as Federal—would benefit from a careful and searching reexamination. These issues are long run in nature and involve the strength of our domestic economy, our international financial and economic position, the capacity to generate revenues to meet national needs, the appropriate distribution of revenues among the different levels of government in relation to their fiscal responsibilities, and many other factors. We shall be discussing approaches to this long run problem within the Administration and with Congressional leaders in the period ahead.

As I look to the future, I not only have hope, I have confidence that we can—working together—meet our challenges. This can and will be the beginning of a new era. Under the leadership of our President, performance will replace promises, confidence and unity will be restored in our cities and communities and a way will be found to bring peaceful solutions to world problems.

I am sure each of us has a favorite Lincoln story. I would like to close with one that I enjoy and one that has meaning to us as we join in this new Administration.

A certain party came to Mr. Lincoln, saying: "President Lincoln, General McClellan criticizes you unmercifully. I don't see why you stand for it." President Lincoln responded by saying "General McClellan has his responsibilities on the field of battle. If it would help him win victories, I would gladly hold the reins of his horse."

Exhibit 15.—Statement by Secretary Kennedy, February 19, 1969, before the Joint Economic Committee

It gives me great pleasure to appear before your distinguished committee. I am accompanied on this occasion by Under Secretary Charls Walker and Under Secretary for Monetary Affairs Paul Volcker. I understand that we are to concentrate mainly on domestic economic matters this morning. Your

committee has already received testimony earlier this week from the Council of Economic Advisers and the Bureau of the Budget. Therefore, we will not attempt to review the economic and fiscal situations in great detail. Our prepared statements are fairly short. I will begin by giving you my own general appraisal of the current situation. The Under Secretaries will then comment briefly on specific issues in tax policy and debt management.

It is no secret that there are serious flaws in the economic picture. Strong inflationary pressures and an unsolved balance of payments problem require corrective action. But, there are also elements of great strength. American productive achievements in recent years have kept real income rising while also meeting the requirements of a rapidly expanding defense effort. Unemployment has been reduced to the lowest levels in nearly two decades. The dollar is strong and respected in the world in spite of recent inflationary trends and a deteriorating trade balance.

As a nation, we are rich in material resources and responsive to the needs we see around us. Our conscience has been awakened to the existence of poverty amidst plenty and the need to make equality of opportunity a reality for all of our citizens. These heavy responsibilities must be met. To do so, the first priority must be to place the current expansion on a sounder and more sustainable basis. Otherwise, we run the risk of trying to do too much and end up by doing too little.

Any incoming Administration encounters unsolved problems and we have our share. We have inherited a serious inflation. It is distorting the economy and weakening our international competitive position. If unchecked, this inflation will undercut the dollar at home and abroad. Already, rapidly rising prices have eroded the purchasing power of millions of Americans who counted on their Government to provide sound money.

We recognize that there are risks in attempting to stop inflation too abruptly. If the economy were to be halted in its tracks, unemployment would rise prohibitively. Even though the inflationary psychology might be broken, the cost would be too high.

There are also risks in doing too little. Insufficient restraint would mean only a brief slowing down of the economy and no lasting reduction of inflationary pressures. Something very much like this occurred during the course of 1967, when expansionary policies were pressed so vigorously as the economy slowed that the inflationary trend was never broken as a result. Inflation has built up a considerable momentum in recent years. The lesson is that the economy must be placed under firm restraint until there are unmistakable signs that we are headed back on a noninflationary path. There will, of course, have to be a continuing review of policies as the adjustment proceeds.

For the present, given the economic outlook as outlined to you by the Council of Economic Advisers, a combination of fiscal and monetary restraint is clearly required. The budget should be kept in surplus while the Federal Reserve pursues appropriate complementary policies. While the Administration has reached no final decision with regard to extension of the 10 percent surcharge beyond this June 30th, a budget surplus will continue to be needed if inflation is to be combatted without extreme credit stringency. Unless fiscal 1970 Federal expenditures can be cut back appreciably from the levels now apparently in prospect, there will be no choice, in my opinion, but to continue the surcharge for another year.

Other matters for legislative consideration will be described by the Under Secretaries. As you know, President Nixon has emphasized that tax reform and equitable tax administration are to have a high priority. Hearings begin this month in the House Ways and Means Committee and in due course we will be submitting the Administration's proposals.

The balance of payments continues to be a cause for concern. A small surplus was recorded last year on the liquidity basis of calculation. But this statistical improvement reflected a massive inflow of foreign capital—both private and official. Inflows are unlikely to continue on that scale. Meanwhile, our merchandise trade surplus dwindled to the vanishing point last year. A major reason for the steadily worsening trade position since 1965 is the sharp increases in imports caused by overexpansion of the domestic economy. A return to noninflationary growth is essential to the restoration of our trade surplus and the maintenance of confidence in the dollar.

In conclusion, I will only note that much the same economic policies are needed to promote internal and external equilibrium of the economy. Both the domestic economy and the balance of payments are badly in need of relief from inflationary strains and distortions.

Exhibit 16.—Excerpts from remarks by Secretary Kennedy, April 15, 1969, before the Executive Committee of the AFL-CIO, White Sulphur Springs, West Virginia, on economic and financial policy

At the outset, let me recall Samuel Gompers' response when he was asked, "Exactly what do you want for the American working man?" His reply, as you well know, was: "More! More! More!"

Within the bounds of reason and fiscal prudence, so do I. And so does the entire Nixon Administration. However, we don't want it to stop with labor. We want more—and more—and more—for every segment of our population.

This evening, I want to discuss the most serious obstacle to achieving more and more and more for all Americans. You know very well that I'm referring to inflation—to that insidious enemy of prosperity that riddles the economy and threatens the pay envelopes and living standards of all of us including labor.

President Nixon and the economic and financial policy team I represent have assigned the defeat of inflation the highest priority.

In all candor, an insidious inflation is close to having our great economy by the throat. But I assure you of my deep conviction, shared by the others who advise the President in such matters, that for the task of breaking the grip there is strength to spare in both the economy and the people who make it go. We should not panic. But neither should we underestimate, as has happened in the past, the diverse and persistent forces with which we are dealing.

I do not really believe that labor leaders like yourselves need to be reminded of labor's stake in a successful outcome of the fight against inflation. Nonetheless it is instructive to contemplate for a moment what has happened to take-home pay since 1965. There is broad agreement that 1965 was the year in which inflation began to get away from us.

Looking at data from the Bureau of Labor Statistics we find that in terms of constant dollars—meaning what the money will buy—the spendable average weekly earnings of production and nonsupervisory workers (in private non-agricultural employment and with three dependents) climbed steadily through 1964, when it stood at $76.38.

But between 1965 and 1968 as inflation began to do its work, the figures for these same earnings level off, holding for the 4 years at an average of $78.42 in a range between $78.13 in 1967 and $78.61 in 1968.

Now I fully realize that these data are but one measure of the problem but they are representative of what has happened. They are simply not consistent with the reasonable and feasible goal of steadily improving fortunes of American workers in a healthy, soundly expanding economy.

They are a measure of the trouble inflation has caused and a signal of deterioration to come if we do not act with prudence and firmness—above all with firmness.

And I would remind you that the figures I have cited tell nothing about what is happening in that sector of the labor force where unemployment is highest because the potential workers in it lack the skills that spell a steady job. Familiar, too, are what inflation does to the kind of savings that are most commonly made by low and middle income families. Under present circumstances they are lucky if they get the same value out that they put in, much less realize a legitimate profit from letting others use their money.

As I have so often said, this administration has made up its mind to slow inflation down significantly and to show progress on the problem this year. The fiscal tool at hand for this purpose is increasing revenues and lowering expenditures in order to exert some spending restraint by the Federal Government on an over heated economy. The President said: "The Government must be willing to impose upon itself the same new discipline that inflation and rising taxes have imposed upon the American wage earner and his family."

You gentlemen may have noticed that the Nixon Administration has been accused in some quarters of too much talk about intentions to solve problems and too little action to get on with the actual solutions. It is not really a very perceptive

criticism, but in any case I would argue that it certainly has no merit with regard to fiscal or budgetary matters.

This administration intends to live within its means.

The first order of business in our battle with inflation is to assure a strong budget surplus. This requires extension of the income tax surcharge, plus carrying out the President's proposed budgetary reductions.

The budget proposals call for a total reduction in expenditures of $4 billion in fiscal 1970 from the revised budget inherited by the Nixon administration. Military cuts account for $1.1 billion of total savings. Other sample reductions include: $185 million in foreign aid spending; $140 million in outlays by the Atomic Energy Commission, and the space program; $345 million in agricultural and natural resources outgo; $420 million in postal and transportation budgets; and $150 million from other programs.

There are also readjustments in projected human resources spending. By paring judiciously and reorganizing to gain efficiency we have managed to budget $390 million less for these programs than was projected. Bear in mind, however, that the 1970 budget provides for an increase of $6.5 billion over 1969 in domestic programs.

These proposals will be submitted to Congress and, of course, are subject to disposition by your elected Senators and Representatives.

While projecting revenues is an inexact science, we expect a budget surplus of at least $5.8 billion, the largest in 18 years and the fourth largest in our history.

As the President said, we believe a surplus of this size is a clear signal that we are getting our house in order.

A second tool which will assist us in our efforts to control inflation, will be a monetary policy pointed toward restraint, which will work in harness with fiscal policy. Toward this objective, the Federal Reserve Board recently further limited expansion in the supply of money and credit by again raising the discount rates, and as a new step raising reserve requirements of member banks.

The efforts of a restrictive monetary policy already had been reflected in slower growth in bank credit and the money supply in the first quarter, as compared with a very strong increase in the monetary aggregates during 1968.

There is no doubt in my mind that the economy can take this strong medicine. Nor should you doubt that we are sincere about moving to stop it—to let the surcharge die—as soon as an end of the Vietnam War, or other changed factors, will permit. Meantime, however, we would be derelict indeed if we did not insist that the medicine be swallowed. The alternative to curbing inflation, which is simply a further spiral ending in a "bust," would be catastrophic.

If that happened, efforts to solve the social problems of poverty, urban blight, unequal opportunity, and all the rest would simply go glimmering. Indeed these problems are one reason we are in such deadly earnest about curbing inflation. It is only from the platform of a healthy economy that effective social improvement programs can be launched with any real hope of success.

Now before I speak of what we propose to do on reforming the tax structure, let me touch briefly on the prominent question of whether we can throttle down inflation without throwing people out of work. My answer here is that if we keep our nerve in doing the things that must be done, and stressing that we are talking about temporary measures, we think we can bring it off without a significant or substantial rise in unemployment.

Of one thing I am convinced: Unless we do succeed in bringing inflation under control this year the problems will increase to the point where it can only be changed at a very heavy cost in terms of unemployment.

I would point out that labor is generally scarce these days and that a fair amount of the time would pass before employers, having acquired and trained a work force, would lay workers off. Of course, my view is well known that the real employment problem is not in numbers, but their distribution and in the skills which the economically disadvantaged need to be taught if we are truly to progress in this field.

And now for a word about taxes, which may be singularly appropriate since some of you may have less than 4 hours in which to send a certain piece of mail, check enclosed, to one of my employees.

There are many, including some members of Congress, who believe that for reasons of equity and justice, tax preferences should be closed before, or coincident with, extending the surcharge.

We agree, equity and justice demand that preferences be closed. But this is a very tough thing to do. To repeat a well known phrase, "One man's loophole is another man's living." Permanent revision of the tax laws is a long, tedious process, and it cannot and should not be considered an economic substitute for the extension of the surtax.

In terms of priority, our mission is simple: in putting the needs of the nation first, we must have the surcharge now, before it expires. At the same time we will begin the arduous task of revising our tax structure.

Let there be no mistake in the minds of the American people: As our tax laws stand today, unfair burdens are imposed on some, while special preferences granted to others are just as inequitable. We know this, and we intend to do something about it.

This administration, working with the Congress, is determined to bring equity and fairness to its tax code. Our goal is meaningful reform legislation in this session of Congress.

President Nixon will send a special Message to Congress very shortly, outlining in general terms the scope of our reform proposals. Next week, the Treasury will present those proposals, in detail, to the Congress.

While I cannot go into specific details of these proposals, let me touch upon a few areas the Treasury staff has been intensively studying since January.

There have been many reports about a Treasury plan to assure that no wealthy person can escape paying his fair share of taxes. These reports are true.

The proposal being looked at for a tax on persons with large amounts of currently sheltered income would place a 50 percent ceiling on that amount of an individual's total income that could enjoy tax-preferred status.

The belief is that our proposal limits preferences while it also takes a giant step toward simplicity and equity.

There are also other areas under study, including the problems of allocation of personal deductions, the tax treatment of conglomerate mergers, the abuse of the special tax exemption for small corporations, exempt organizations, including private foundations, the rules affecting charitable deductions, and the tax treatment of mineral production payments.

Now, let me make it as clear as one can, this brief recital of areas under careful scrutiny since January is not necessarily an outline of what will be included in the President's tax reform proposals announced later this week. It does indicate the breadth of our studies, and it means that these and many more areas will all be dealt with during the course of the coming months.

I think it is appropriate here to point out that the revenues derived from possible changes I have described would probably make possible the extension of some benefits to taxpayers in the lower and middle income brackets. We have under intensive study several proposals to lighten the tax burden of as many of these people as we can, and in the course of the next few months our proposals in this area will be made public.

Our mission is to keep faith with the American people. We will not promise what we cannot deliver. We are committed to take every step necessary to protect the wage earner, the farmer and businessman. We will take every step necessary to protect real income from erosion.

Only a combined policy of a strong budget surplus, and a coordinated monetary policy of restraint, can now be effective in battling inflation. This is fundamental, and as President Nixon has said on many occasions, we intend to deal with fundamentals.

I thank you.

Exhibit 17.—Statement by Secretary Kennedy, June 19, 1969, before the House Committee on Banking and Currency, on interest rates

I understand the purpose of today's hearing is to seek answers to two important questions:

(1) What were the reasons behind the recent increase in the bank prime lending rate of 8½ percent?

(2) What policies should the Federal Government follow to create conditions that will result in a lower level of interest rates?

It is essential that we consider these questions, and I welcome this opportunity to offer some observations on them.

The high level of interest rates which exists today is largely the result of three major influences.

First, the overall demand for credit remains strong. This large demand is stimulated by continued economic expansion in a broad range of economic activities, especially for the financing of capital investment. The demand is reinforced by the expectation of continued inflation.

Second, the behavior of interest rates is peculiarly distorted by the impact of inflation, both actual and expected. Interest is the price paid by a borrower for the advantage of using a fixed sum of money now and repaying the same fixed sum at a future date. When there is an expectation of stable prices, the interest rate reflects a normal return on capital and a risk adjustment based on the borrower's credit worthiness. But when the expectation of unabated inflation is widespread, the unprotected lender must charge—and the borrower is willing to pay—a premium to compensate for the decline in purchasing power of the funds to be repaid. The incorporation of this inflation-adjustment charge into credit contracts is a major factor in today's high level of rates.

Third, the large role played by monetary policy in the effort to control inflation has put substantial upward pressure on interest rates. Monetary policy influences real economic activity through changes in bank credit and money supply. A program of economic restraint which relies heavily on monetary policy, thereby restricting the supply of money and credit, is likely to lead to higher interest rates in the short run. Of course, as inflation is brought under control, interest rates can logically be expected to decline.

I believe these three influences—strong demand for credit, excessive inflation, and heavy reliance on monetary policy—basically explain the general level of interest rates.

My primary concern is with the second question under consideration today—what policies should the Government follow to create conditions that will result in a lower level of interest rates? I assure you that no one in this hearing room is more anxious to see lower interest rates than the Secretary of the Treasury. This Administration is determined, therefore, to pursue anti-inflationary policies which offer the most promise for achieving effective relief from the current rates.

The appropriate policy prescription for achieving the desired reduction in the level of interest rates is clearly dependent upon the real nature of the current problem. If, for example, today's rates were the result of concerted discretionary action by large banks with the power to escape normal market tests, which I do not believe is the case, then a possible course of policy would be to seek legal remedies. If, on the other hand, these high rates are fundamentally the result of the three major influences I have outlined, then the proper policy is one of strong fiscal restraint, expenditure reduction, and surtax extension—such as this Administration has proposed.

I have a deep appreciation for the widespread concern expressed over the recent prime rate increase. Indeed, I have previously made clear my serious doubts as to the ability of interest rate increase to effectively ration credit at this time, and I would today urge all lenders to use other methods to make those difficult credit allocation decisions which the present situation clearly demands. We are entitled to expect such responsible behavior from our financial institutions. They, in return are entitled to expect the Government to take the actions that are necessary to restrain inflation.

I do not, however, favor reliance upon a strategy of selective application of administrative pressures to force particular firms in competitive industries to reduce prices. This approach merely treats symptoms, not basic causes, and provides no effective or lasting relief from the problem of inflation.

A policy of selective Government intervention to roll back price increases knows no limits in actual application. Where does one draw the line? The Administration has been urged not only to roll back the prime rate, but also to take direct action against increases in certain commodity prices, and in construction industry wages. This arbitrary approach is ineffective, without legal sanction, and devoid of clear guidelines or effective remedies for the firms involved. Moreover, such action in the case of interest rates can increase demand and inflationary pressures and adversely affect certain sectors of the economy, such as housing.

All of this emphasizes the pressing need for full extension of the surcharge, as reported by the House Ways and Means Committee, and enactment of the other fiscal measures proposed by this Administration. Inflation and inflationary expectations have taken a very strong hold on the economy. The prime rate

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increase is the latest dramatic evidence of that fact. Any backing away now from our policy of restraint—any reduction in tax rates while prices are climbing at a rate of 6 percent a year—is simply an invitation to more and more inflation and, ultimately, a severe and painful economic adjustment.

Exhibit 18.—Remarks by Under Secretary for Monetary Affairs Deming, August 27, 1968, before the Graduate School of Banking, University of Wisconsin, Madison, Wisconsin, on the domestic and international monetary situations

The theme of this talk might well be—"When you are Number One you have to try harder." Superpower status, leadership of the free world and the biggest and strongest economy in the world bring unquestioned benefits to the United States and its people. But they also bring great responsibilities. In the international field, these involve using the power and leadership wisely and constructively, including the honoring of commitments. They involve operating the domestic economy so that it grows steadily and sustainably, not only for domestic benefit but also because it is a major factor in world economic growth. In the domestic field, these responsibilities involve just Government under law and the equitable sharing of the fruits of a growing economy.

These responsibilities are not easy to carry—either at home or abroad. They are particularly difficult to carry in periods of rapid change. For, in such periods, attainment of some expectations brings greater expectations. A major tenet of economics is that man's wants are insatiable—this provides the drive for economic growth. The expression of this point in raw political terms is: "What have you done for me lately?" Record breaking is an old American habit, and the drive to surpass is a major factor in American life. All of this is as it should be, but it does not make life comfortable for Number One or its leadership.

I am here to talk to you tonight on the domestic and international monetary situations. It seems desirable to do this against the broad background of economic developments in this period of rapid change and against the background of prospective future change—and of what needs to be done in the future. For what we have achieved so far provides a base for greater and necessary achievements in the years ahead.

I need not—in fact, I cannot—cite all of the problem areas of the future. We have made great progress over the past several years. But change begets change; new needs and new problems that cannot now be foreseen will emerge.

On the domestic side, we have attained extraordinary economic growth, and one broad economic problem now is to insure that growth is at a sustainable rate, so as to avoid both the problems of inflation and deflation. But our prosperity has not solved the problems of our urban ghettos, and we need to improve much more the environment of our rural life. We face ever increasing demands for better health facilities, for better transportation facilities, for expanded educational facilities, for improved public safety.

On the international side, we have made great progress in economic cooperation, in expanding world trade, and in improving the international monetary system. But we still have a balance of payments problem; we need to improve our own trade position; and the monetary system will undoubtedly need further improvements.

The record of the sixties

You will recall that, when this decade opened, there were two broad economic themes under discussion. One expressed dissatisfaction and concern.

—Soviet Premier Krushchev had said in the late 1950's that Russia would "bury us" economically.

—The U.S. growth rate was compared unfavorably with that of Western Europe and Japan.

—Economists were worried about the frequency of recessions and the upward drift of unemployment.

—People talked about the "technology gap," the "educational gap," and the problems of automation.

The other theme was optimism over the prospects for the "Soaring sixties."

—There was room for economic expansion.

—The New Economics could insure much greater growth.

—Few regarded the balance of payments as a serious or continuing problem.

—The international monetary system seemed strong, almost impregnable.

Basically, except for views on the balance of payments and the international monetary system, the optimists were right. The sixties did soar; by mid-1965, the broad economic problem was that of preventing prosperity from becoming inflation and the better sharing of that prosperity.

Let me give you a few details.

From early 1961 to mid-1968:

—Our gross national product at current prices rose almost $350 billion, or 69 percent.

—In real terms, adjusting for price increases, the rise was $267 billion, or 46 percent.

—Jobs increased by 10½ million; total employment in July 1968, was 77.7 million persons.

—The unemployment rate fell from 6.9 percent to 3.8 percent.

—Industrial production increased almost 60 percent.

—Aftertax personal income grew by $232 billion, or 65 percent.

—Aftertax corporate profits rose by $26 billion, or more than doubled.

What did we do with this growing abundance? Were we profligate or prudent?

—Personal consumption spending rose $200 billion, or 60 percent.

—But, liquid savings of the American people increased from $400 billion in 1960 to $675 billion today.

—And nonbank business net working capital was $132 billion in 1960 and is $205 billion today.

—And public and private expenditures on education rose from $27 billion to $52 billion; on health from $27 billion to $50 billion.

—And annual investment in manufacturing rose from $14½ billion to $27½ billion.

On balance, I think you would say that Americans were prudent rather than profligate. And the record becomes even more impressive when we consider that, in the sixties, this bigger economic pie that was baked enabled 13 million Americans to move out of the poverty category and enabled 11 million more families to reach more than $10,000 in annual income, two and a half times the number enjoying such incomes in 1960. The benefits were shared by both blacks and whites. Complete sharing may not have been attained, but two statistics tell a lot. Between 1960 and 1968, the percentage of nonwhites in poverty dropped from 55 percent to 35 percent, and the percentage of nonwhite high school graduates rose from 39 percent to 58 percent.

These are solid achievements, and they came primarily from American economic growth—the bigger pie—rather than from income redistribution. They came from an American economy operating efficiently and at close to capacity—sometimes a bit over capacity. They came from economic policies that, on the whole, were well conceived and well executed. We did, of course, have delays both on tax cuts and tax increases—the record is not perfect—but Federal income taxes were cut by 20 percent in 1964 and stimulated growth, and were increased by 10 percent in 1968 and will help contain inflation.

Let me now turn briefly to the international side. Here the basic policies established at the close of World War II and pursued by four Presidents evolved further in the 1960's. The American program was to work toward building a growing world economy in which trade and payments can expand soundly and move freely. The major shift in the 1960's was increased emphasis on cooperation with the nations which we had helped rebuild their economic strength. This development was a natural outgrowth of our policy of help for the world, which we had pursued almost singlehanded for many years. As other nations could assume more responsibilities, we welcomed their help and worked cooperatively to attain it.

In this international area, I list these achievements:

—Increased resources in the International Monetary Fund, backed up by the General Arrangements to Borrow.

—The swap networks—the Federal Reserve network alone is now $10 billion.

—Expansion of multilateral aid through increased resources of the World Bank, and the emergence of the Inter-American Development Bank, the International Development Association, and the Asian Development Bank.

—The new Special Drawing Rights—a new form of international reserve.

—The reciprocal reduction of tariff barriers in the Kennedy Round.

—Cooperative arrangements to offset the foreign exchange costs of our military deployments abroad undertaken in the common defense.

—Cooperative efforts to meet monetary crises—in the United Kingdom, Canada, Italy, and, very recently, France.

This is a notable record on both the domestic and international sides. The fact that we have not solved all of the old problems and that new ones have emerged should not detract from it—but it also should remind us that we have to continue not only to try harder but to achieve more.

Now, against this broad background, let us look at the domestic and international monetary situations.

The domestic financial situation

The key factor in both domestic and international monetary developments recently was the passage of the tax increase—expenditure restraint legislation. The significance of this legislation goes far beyond its specific fiscal effects, even though these are important in themselves. The tax increase and its accompanying expenditure restraint offer real prospect of restoring more balance to domestic economic growth and should help improve our foreign trade position. If the fiscal package can be coupled with more restraint on wage and price policies by business and labor, it should help to restore a substantial degree of price stability within a reasonable period of time.

But, in both domestic and international financial markets, the tax-expenditure legislation has had effects on atmosphere and expectations beyond its purely fiscal impact. Both here and abroad, there had been increasing concern about the U.S. will and ability to check its twin deficits—in the domestic budget and the balance of payments. The long delay in enactment intensified that concern. But the final action, in an election year, almost magically dispelled much, if not all, of that concern. It showed courage and responsibility and demonstrated the will and capacity to manage American financial affairs with prudence.

The dollar showed strength on the international exhanges, and the domestic money and capital markets reacted with a remarkable improvement in atmosphere and expectations. Key interest rates eased significantly. From the highs of late May, when confidence in passage of the legislation was at its low point, to last Friday, the 3-month bill rate fell 77 basis points. Treasury coupon issues declined in rate from 50 to 90 basis points. One-year agency yields dropped almost three-quarters of a point; Aa corporates were 69 basis points lower in yield; and municipals were down 44 basis points. Only the traditionally sticky mortgage rates had shown little sign of downward movement by last week.

The recent one-quarter percent cut in the discount rate of the Federal Reserve gave further concrete evidence of an easier monetary climate. I cannot, and would not, attempt to forecast the course of Federal Reserve policy or interest rate developments. Nevertheless, it seems evident that, as fiscal restraint works its way through the economy, there will be less need to pursue a highly restrictive monetary policy. There is real reason to believe that the possibility of another credit crunch like that of the summer of 1966 has become highly remote.

The changed financial atmosphere has helped debt management operations considerably, and the realities of Treasury demands in fiscal 1969 should help it in the future. Our last financing was highly successful. We placed more than $5 billion in 6-year securities in public hands without undue market strain or any visible signs of disintermediation—and at a yield 30 basis points below our last similar, but much smaller, offering.

In fiscal 1968, the Federal budget deficit—on the new unified budget basis—was $25.4 billion. We do not yet have a firm estimate for fiscal 1969, but the deficit will most likely be at least $20 billion to $22 billion smaller, and that measures the change in pressure the Federal budget will be putting on the market in fiscal 1969 as against fiscal 1968. This reduction in Federal Government demands means that much more room to meet other demands for credit from both private and public—State and municipal—sources. If there should be—as is widely expected—some lessening in overall business credit demand, this would increase chances for further easing of market conditions and in interest rates.

In the current half-year, July–December 1968, our total new money requirements are around $14.5 billion. This includes both direct Treasury and net agency needs. The bulk of this, $12.5 billion, is the seasonal deficit typical of the

first half of each fiscal year. Expenditures are spread fairly evenly throughout the fiscal year, but revenue collections in the first half are smaller than in the second half.

Not only is the Federal Government requirement smaller for fiscal 1969 as a whole, but we have already done a good share of the heavy first half's needs. Of the $12 billion Treasury new cash needs in the first half, we have done $7 billion—$4 billion in tax anticipation bills in July, $1.5 billion in new cash in August, plus $1.5 billion in the current expanson in 6-month bills. We also have done about half the new agency cash borrowing. The Treasury does not need to go to market for new money before late October and, most likely, will be able to cover its remaining cash needs in this half year through tax anticipation bill issues.

All of this makes life for a Treasury debt manager considerably easier than it was in fiscal 1968 and much easier than during the 1966 credit crunch.

Financing new needs

But, if life is easier now and prospects are for lesser problems in Treasury and agency finance throughout fiscal 1969, there are some major financing problems that lie ahead of us. I have referred to the problems of the urban areas; obviously, we must find ways to meet them and to meet them in sound financial style.

In a talk I gave in St. Louis in November 1965, I discussed in some detail problems of coordinating the offerings of the multiplicity of Federal agencies dealing directly with the market, each with its own scheduling problems and each with fairly specific financing objectives or requirements. I also discussed the growth and diversity of the underlying Federal credit assistance activities which gave rise to these agencies. I suggested that we give pretty free rein to the imagination in considering alternative approaches to improve the coordination of the financing of these activities and, thus, to minimize the financing costs and the impact on financial markets.

In October 1966, in New York, Under Secretary Barr also spoke of the problem of coordinating the financing of the myriad Federal credit program agencies. He suggested that perhaps the next step in this area might be the establishment of a new central Federal lending corporation, which would obtain funds for programs economically and efficiently by issuing its own obligations in the private market.

On July 2, 1968, Vice President Humphrey suggested the establishment of a National Urban Development Bank to help solve the central problems of financing the needs of American cities. This would be essentially a program for Federal underwriting of loans. The bank would be financed initially by an appropriation of Federal funds and then through subscription of private funds. It would issue its own obligations in the market and would make loan funds available through affiliated regional banks at varying interest rates to help finance publicly sponsored projects, especially, but not exclusively, in the inner cities. Federal appropriations would be provided to cover the differential between the interest rate paid in the market by the Bank and the subsidized rate to the borrowers.

I believe that such an approach offers a basic solution to the long standing problem of providing effective Federal financial aid to State and local public bodies. The interest on obligations issued in the market by the bank would be subject to Federal income taxation without involving the direct taxation by the Federal Government of obligations issued by States and localities themselves. This is the way we conduct our present programs of direct loans—since these programs are, in effect, financed in the market with taxable Treasury bonds—except that direct Federal loans require immediate Federal budget outlays.

The proposed new urban bank may require an initial Federal contribution but would then require budget outlays only as necessary for interest subsidy payments over the term of the bank's borrowings. Since the bank would not require actual Federal stock ownership, it would not be included in the Federal budget.

This broad-purpose urban bank would go a long way in meeting the financing needs of the cities. It also would help avoid further proliferation of Federal lending agencies and would have the advantages of size and flexibility in its marketing operations which would assure orderly financing at the lowest possible borrowing rates.

The urban bank proposal may also suggest the proper future Federal role in the necessary Federal-State-local partnership to meet the growing credit demands for public facilities. I believe that the Federal role should be primarily that of guarantor. There is no reason why the Federal Government, itself, should be getting ever deeper into the essentially administrative chores of loan origination and servicing which can be performed just as well or better by existing private financial institutions or by new non-Federal institutions such as the proposed urban bank. Nor is it necessary or practical for the Federal Government itself to build up a large portfolio of loans. The essential Federal contribution can be provided in the form of debt service subsidies over the term of the loans and Federal assumptions of the unusual loan risks.

While a Federal backstop behind the Bank's obligations is an appropriate means of assuring the investor in these obligations against loss and thus minimizing the Bank's borrowing costs, the Federal guarantee should not be expected to be used, or looked upon as a means of providing further subsidy or protection to the local communities themselves. The defaults on State and local bonds over the past several decades have been virtually nonexistent, and I believe this record should be maintained. The Bank can serve as a useful channel for Federal interest and other subsidies for the benefit of local community projects; these subsidies should be in predetermined amounts sufficient to make the local projects economically viable. Any loan made by the Bank should have a reasonable assurance of repayment. The management and staffing of the Bank should be of the highest caliber. I think these principles are essential to the establishment of the Bank in the private market on a businesslike and fully self-supporting basis.

The Bank should also not be viewed as a substitute for sources of credit already available in the private market. As the Vice President stated in his July 2 speech, the funds of the Bank would be available for programs which cannot be financed through other means.

There should be firm control by the Congress over any subsidies provided to local communities through the Bank. While it would be essential to the efficient marketing of the Bank's obligations to provide advance assurance that Federal interest subsidies will be forthcoming in a timely manner to meet the Bank's own debt service requirements, this can be done without any loss of congressional control by requiring regular approval by the Congress of the dollar volume of new obligations issued by the Bank with a Federal commitment to pay part of the debt service.

The U.S. balance of payments

I turn now to the international side and want to talk first about the U.S. balance of payments. And, to provide proper perspective, I want to go back to the World War II period.

Here, for the record, I must interject a brief technical note. In discussing the balance of payments, I find it useful to consolidate the various and numerous receipt and payment accounts into three broad categories—trade and service, military and Government, and capital. The measurement of deficit or surplus does not change, and I use the so-called liquidity concept. In the capital account, I include all private outflows on direct and portfolio investment and all public and private inflows. But I also include all Government and public income receipts and payments and the catchall "Errors and Omissions." The military and Government account includes mainly Government grants and capital plus military transactions net of military sales, but also Government pension payments to recipients living abroad and some Government receipts and payments for miscellaneous services. The trade and service account includes everything else—nonmilitary exports and imports, both privately and publicly financed, travel, transportation, miscellaneous services, and pensions and remittances. The primary differences from conventional accounting are the inclusion of income on investments on the capital account and the consolidation of most military and Government expenditures and receipts. From my point of view, these groupings make it easier to see the picture.

In the 17 years from 1941 to 1957, the United States had a cumulative deficit on the liquidity basis of less than $10 billion, or less than $600 million per year on the average. We had a cumulative surplus on trade and services of $89 billion, or $5.2 billion a year. We had a deficit on military and Government transactions of $112 billion, or $6.6 billion per year. From 1946 to 1957 alone, we extended economic assistance in grants and loans of $42 billion net. On capital account, we

had a surplus of $13 billion, or $800 million per year. And, despite our overall deficit, we gained gold reserves which, at the end of 1957, were $800 million larger than at the beginning of 1941.

The point, of course, is that the United States was not in a real balance of payments deficit throughout that period, even though, on an accounting basis, we ran deficits in 11 out of 17 years. Both in the war years and the postwar years, we employed our great economic strength first to assist our allies and then to help rebuild a wartorn world. In that process, we loaned or gave away a lot of money which went first to buy our goods, since only the United States had major production resources virtually untouched by the war, and, second, to buildup the international reserves of the rest of the world. Most of that reserve buildup was in the form of dollar claims—as noted, we actually gained gold reserves. The dollar was not only as good as gold—it was better.

We were not patsies during this period; we exercised the responsibilities of a great power and helped rebuild the world. We suffered discrimination against our trade, but it meant little, for we had most of the goods to sell abroad. There was a dollar shortage. The only reason foreigners did not buy more from us was that they did not have more money. Our capital markets were open and we encouraged their use. We picked up most of the checks for insuring free world security. We tried to increase our foreign private investment. We encouraged our tourists to go abroad and make substantial purchases there.

But during this period, two things were occurring. On the one hand, we were experiencing a fairly steady shrinkage in net inflow on trade and services account. This was a joint product of some decline in our trade balance, as imports rose more than exports, and some further deterioration in our service balance as travel and tourism rose. The net trade and service balance averaged $6.9 billion from 1946 through 1949 but only $2.4 billion from 1950 through 1957. The annual average of military and Government outpayments net dropped by $1.7 billion from 1946–49 to 1950–57, but this obviously did not offset the trade and service decline. On the other hand, neither we nor the rest of the world did much of anything about the consistent deficit. The rest of the world began to worry about the U.S. deficit but did not want to stop having surpluses. We apparently just continued to be willing to run deficits.

The next 10 years saw a far different set of circumstances. We ran a cumulative deficit of $27 billion, or more than four times the annual average of the 1941–57 period. We lost $11 billion in gold and financed most of the rest of the deficit by increasing dollar claims against us. Thus, we not only lost gold reserves but our liquidity ratio deteriorated quite sharply.

By the close of 1960, it was painfully evident that the U.S. deficit was no longer regarded as a blessing but as a destablizing element in the world monetary system. Our trade and service balance had shrunk further, and our small surplus on capital account had turned into a small deficit. Military and Government account deficits, which had been declining, were moving back up to bigger figures. The overall deficit in the three years, 1958–60, totaled $11 billion, or $3.7 billion per year.

With the American economy operating well below capacity in 1960 and 1961, there was nothing to be gained and much to be lost by following the classical remedy for balance of payments improvement—deflation. One thing we, and the rest of the world have learned is that sharp deflation is not an acceptable balance of payments cure. It hurts the world as a whole, as well as the deficit country. Curbing inflation, of course, is another matter—that is still good doctrine, and we are trying to employ it now.

But there is another reason for not depending solely on sharp deflation to cure balance of payments ills for the United States. Much of our difficulties came from adverse balances on military account, on tourism, and on capital outflow.

The foreign exchange costs of our worldwide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays in this account amount to about $4.3 billion per year, and the impact on our payments position, even after netting receipts from sales of military goods, is about $3.3 billion. The only logical way to reduce the net drain is to implement further—as we are doing to some extent—the accepted principle that the foreign exchange costs of common defense efforts should be neutralized.

Tourist expenditures also are not closely related to fluctuations in economic activity but more to the growing number of people with high incomes. Our net tourist deficit last year was about $2 billion. And, while some capital flows are closely related to interest rates, much capital export reflects other factors.

The first actions to reduce the U.S. payments deficit took the form of reducing the foreign exchange costs of Government spending overseas. Savings in this area, plus improvement in our trade account, reduced the deficit from $3.9 billion in 1960 to $2.2 billion in 1962. But then capital began to flow out in increasing volume—partly because we generated large savings and had large capital markets; partly because of investment opportunities overseas; and partly because the long campaign to increase U.S. foreign investment had gradually won many converts. The net capital outflow was less than $500 million in both 1962 and 1963; it jumped to $2.6 billion in 1964. The Interest Equalization Tax, in 1963, and the voluntary programs to restrain direct investment and foreign lending in 1965 turned the net capital outflow into net inflow in 1965, 1966, and 1967.

But the trade and services inflows were cut back sharply in those same years and, from mid-1965, the rising foreign exchange costs of Vietnam increased the deficit on military and Government account. Finally, the unsettled condition of the pound sterling caused us trouble in 1967. The result was that, after reducing our payments deficit to about $1.3 billion in both 1965 and 1966, it skyrocketed up to $3.6 billion in 1967.

It was in that setting that President Johnson announced, on New Year's Day this year, a new, complete and balanced program to eliminate the payments deficit. The program was in two major parts.

—First, and of key importance, was the tax increase and expenditure restraint to cool off the American economy and help restore our trade position. In addition, the President asked business and labor to exercise wage and price restraint and requested avoidance of crippling work stoppages to prevent import increases or export reductions.

—Second, five programs were aimed at particular and vulnerable segments of our balance of payments. Two were in the capital field and were aimed at reducing foreign borrowing in the United States and U.S. investment abroad. These were tailored selectively to have major impact on the surplus countries of Western Europe and least impact on the developing countries. One aimed at reducing the foreign exchange costs of Government expenditures overseas, with heavy emphasis on neutralization of military expenditures incurred in the common defense. One was aimed at increasing exports, and one at reducing the net outflows on tourism.

The program was an overall program, but not all of it has been put into effect. The tax increase-expenditure restraint program was not enacted until midyear. Nothing has been done to reduce tourist expenditures. The two major capital programs came into force January 1 and have proved very effective. The reduction in the foreign exchange costs of Government has also worked out well.

The net result, so far, has been encouraging, but there is no cause for relaxation of our efforts. On a seasonally adjusted basis, the deficit in the last quarter of 1967 was $1.8 billion. In the first quarter of 1968, it was cut to $660 million and, in the second quarter, to $150 million.

In announcing the second quarter results, Secretary Fowler said:

"The program to date demonstrates that bold wise action can influence events and developments. Complete pursuit of the full program, in full bipartisan partnership, is the only course that will achieve and maintain equilibrium in the U.S. balance of payments and thereby assure the soundness of the free world monetary system."

That is the real point in seeking to bring the U.S. payments position into balance. The long string of deficits had become a destabilizing factor in the international monetary system and had eroded our own reserve and liquidity position. It is in our interest and that of the world monetary system to come into balance.

Passage of the tax increase-expenditure reduction legislation has improved confidence in the dollar. It has been further improved by the strong measures taken and the results achieved in our payments balance. But we cannot relax our efforts until we attain sustainable balance.

The international monetary system

The international monetary system rests on four pillars:

—A strong and well-balanced U.S. economy with a strong dollar which holds its puchasing power. As such, it can be invested profitably in the U.S. money and

capital markets and, thus, can be held as a safe international reserve or as a safe and usable means for making international commercial payments.

—A fixed $35 per ounce official price of gold and a dollar convertible into gold at that price by monetary authorities.

—Convertibility of other currencies into dollars at stated rates of exchange.

—Adequate international reserves and credit facilities to support the system.

I have already discussed the need to maintain a strong and well-balanced U.S. economy and a strong dollar. The economic record of the sixties is a good one; the recent fiscal legislation provides insurance for that record and for the future.

I have also cited the achievements in international monetary cooperation during the sixties: the strengthening of the International Monetary Fund, the development of the swap networks, the rescue operations, and the new Special Drawing Rights plan now in process of legislative ratification in the member countries of the Fund. The United States took a leading position in developing this new reserve asset; it should serve the world well when it comes into actual existence.

There were two major reasons why worldwide agreement was reached on a new reserve asset—the Special Drawing Right. The first reason was that the world needs fairly steady and assured growth in international reserves in order to avoid a scramble for existing reserves and possible restrictive actions to preserve reserve positions. World economic growth and international trade growth require growth in world reserves. The second reason was that the existing sources of reserve growth were inadequate or inappropriate to meet demand. Most of the growth in world reserves in the postwar era has come from U.S. balance of payments deficits. We have already noted that continued large U.S. deficits were not desirable either from the viewpoint of the United States or of the world. The U.S. balance of payments program aims at equilibrium; that means that additional dollars cannot be counted on to fulfill the demand for reserves. And additions to monetary gold stocks have been inadequate in amount for a number of years.

Fortunately, work on the new Special Drawing Right was in its latter stages when the international monetary system underwent major crises in the fall and winter of 1967 and 1968. The greatest factor of instability was the weakness in sterling which culminated in devaluation at mid-November 1967. But the Middle East crisis and the return to large deficit in the United States also added to uncertainty. In this setting, a number of people became convinced that the price of gold would have to be increased, and free market gold sales rose very sharply.

The immediate outbreaks in late November and December were not unexpected, following the devaluation of a major currency. The monetary authorities, acting quickly and with the cooperation and efficiency gained from experience, contained the devaluation and its direct impact to relatively few countries. They hoped that determination to hold the free market, as well as the official price of gold, would restore stability, give time to set firmly in place the plan for the new reserve asset, and thus demonstrate the reduced reliance of the world's monetary system on gold.

But the sporadic runs into gold continued, even after the sterling crisis subsided and the new U.S. balance of payments program was announced. The monetary authorities operating the Gold Pool began to question the desirability of continuing to peg the free market price of gold. Following the renewed heavy gold rush in March, they decided to take other action.

By their action in Washington on March 17, 1968, the members of the Gold Pool effectively separated the private gold markets from what might be termed the monetary gold market, composed of the existing stock of monetary gold. "They no longer feel it necessary to buy gold from the market," said the March 17 statement, "in view of the prospective establishment of the facility for Special Drawing Rights."

In Stockholm, at the end of March, the final touches were put on the new Special Drawing Rights plan, and, as noted, it is now in process of legislative ratification by IMF member countries. Possibly by the end of this year, almost certainly by early in 1969, the plan will be formally in place as the various legislatures act.

Both at Washington and in Stockholm, the monetary authorities of the big countries reasserted their determination to keep the official price of gold at

$35 per ounce. A large number of IMF member countries commented publicly on the Washington Communiqué and pledged their backing to the official price and to the "rules" of the two-tier gold system. Among the proposed amendments to the Articles of Agreement of the IMF, the key document now in process of ratification by all member parliaments, there is one that makes it much harder procedurally to change the gold price. This move was originally suggested by the Common Market countries and supported by the other members of the IMF. Taken all together, I think it is crystal clear that the world's monetary authorities have nailed down hard the answer to the gold price problem—there will be no change in the official price.

The new two-tier system has worked very well. The free market price of gold went as high as $42.60 in London in May. It subsequently receded to as low as $37.50 and currently is around $39.50. You might note that even with heavy speculation and increased hoarding, the free market gold price did not rise very much. Market performance certainly does not indicate that the two-tier system is very fragile.

France is the most recent case to demonstrate the strength and solidarity of international monetary cooperation and the determination of the countries of the world to make the world monetary system work. The riots and unrest of late spring and early summer in France created another confidence problem for the system, and the authorities moved quickly and decisively to meet it. France drew on the IMF, and the big countries established a swap network to ease the strain on French reserves. U.S. participation in this network is $700 million.

Taken all together, the world monetary system has performed well over the postwar period, and monetary cooperation has increased and become even more effective in recent years. The new plan for Special Drawing Rights will improve and further strengthen the system.

Conclusion

To conclude this talk, I return to my opening theme. Progress brings problems but also makes possible the solutions to problems. We must try harder both to attain continued progress and to resolve our current problems and those that will emerge in the future. We will not attain all we want at once. But the way to progress is to progress. Change is the order of the day. It should and will come quickly, but it should and will come in orderly and coherent form. To keep this country strong is of key importance. This means that change will come in a climate of fiscal and monetary responsibility.

The United States, if it is strong at home, will be strong abroad, and the dollar will remain the key currency of the world. And, in that world, a strong United States is an absolute must. But, in that world, we need to foster the theme of cooperation, which has proved so useful in the past and will, without question, prove even more useful in the future.

Exhibit 19.—Remarks by Under Secretary for Monetary Affairs Deming, October 7, 1968, before the 50th Anniversay Convention, American Gas Association, Philadelphia, Pennsylvania, on the domestic economy and the balance of payments

The United States is presently in a period of political transition, with a new Administration scheduled to take office in less than 4 months. Both major parties have advisors and task forces busily engaged in appraising the current scene, domestically and internationally, delineating the problem areas of today and tomorrow, and, hopefully, outlining policies to deal with them.

I propose to discuss with you two key areas—the domestic economy and the balance of payments—and to cite to you two major financial problem areas of the future.

In a period like the present, it is useful to take a double sighting—one into the past and one into the future. The present high ground we have reached gives us an excellent vantage point to look back over the path we have traveled. It is obviously more difficult to see the path ahead, partly because we have to look upward and partly because we have to build the path as well as travel it.

The domestic economy

At the conclusion of the 1950's, most people looked forward to the glowing prospects of the next decade—the soaring sixties. The major domestic economic problems of the 1950's were slow economic growth—stop and go economic expansion with three recessions—and either sharp or creeping inflation. Not until late in the period was the inflationary situation brought under reasonable control, and the decade ended with a recession. In real terms, economic growth averaged just over 3 percent from 1950 to 1960, which period includes the sharp expansion of the Korean War. From early 1953 to early 1961, the real growth rate was only 2 percent.

From early 1961 until now, the real growth rate has averaged 5.3 percent, as the economy picked up to its full potential. This 92-month expansion has been the longest and strongest in the Nation's history. And this has been accomplished with an average price increase no greater than in the previous eight years.

Of course, part of this acceleration in growth of output was due to "makeup" from the recession trough of early 1961—putting idle resources to work. With a full employment economy and little, if any, slack, the growth rate for the next eight years will be smaller, since it will have to rest almost entirely upon growth—both in quantity and quality—of new capacity and increased manpower. But, even so, this should permit an annual rate of real growth in the 4 percent to 4½ percent range. Whether we achieve that range depends upon how well both the public and the private sectors manage their economic affairs.

Let me illustrate what the costs of slower growth are and what we have obtained from faster growth.

If the economy had grown from early 1961 through 1967 at the growth rate of the previous 7 years, output in real terms would have run $120 billion below its actual level. That figure is larger than the current total of Federal expenditures on goods and services.

If the economy can be kept on a growth path of 4 percent to 4½ percent for the next 10 years, we can increase national output by more than $400 billion. That figure is more than the current total output of the Common Market or the Soviet Union.

Strong U.S. growth in this decade so far has brought great material gains both at home and abroad.

At home, since early 1961:

—11 million new jobs have been created.

—Average income per person, aftertaxes and corrected for price changes, has risen by one-third.

—13 million Americans have moved out of the poverty area.

—In the past 2 years alone, more Negroes and other nonwhites have risen above poverty than in the previous 6 years.

Abroad, the more vigorous American economy in the 1960's has meant a more vigorous expansion of world trade and a faster rate of growth in world output. In an increasingly interdependent world economy, the economic performance in each country is linked, in greater or lesser degree, with the economic performance of all countries.

So, the soaring sixties have been characterized by economic growth. With proper policies, we should be able to continue on that growth path. And, if we do, the American economy, running at capacity cruising speed, can continue to be a mighty engine of economic and social progress.

But there are some problems—both old and new.

The current expansion was unique in the virtual stability of costs and prices up to mid-1965. Since then, costs and prices have risen far too rapidly and have threatened to disrupt the domestic expansion and to undercut our competitive position internationally.

A major factor in the recent imbalance has been the Federal budget deficit. We had near balance in the Federal budget in fiscal 1965 and a deficit of less than $4 billion in fiscal 1966. But, in fiscal 1967, the budget deficit was $8.8 billion, and, in fiscal 1968, it was $25.4 billion. These deficits, which had to be financed by borrowing, placed heavy pressure on domestic money and capital markets already under pressure from rising demands of private enterprise and State and local governments. Interest rates rose sharply in 1966, receded temporarily in early 1967, and then rose to new heights in the first part of this year.

There was some fiscal restraint and sharp monetary restraint in 1966. We had a crunch in the financial markets in the late summer of 1966. In January 1967, the President's budget message called for increased taxes for fiscal 1968, and, in early August, a specific request for additional taxes went to the Congress. Action was slow, but finally a tax increase-expenditure restraint program was enacted into law in late June 1968. While the program was delayed, it finally passed strongly, with bipartisan support in an election year—an act of considerable political courage.

The legislation, plus certain other fiscal actions, will reduce the Federal budget deficit by some $20 billion from fiscal 1968 to fiscal 1969. This will mean a roughly equivalent reduction in Federal financing requirements and should produce a significant lessening of pressures on the financial markets and some reduction in interest rates.

It also should produce—as it is designed to—a needed "cooling-off" in the economy, a measured slowing in the pace of domestic expansion and a reduction in cost-price pressures.

Some observers profess to see dangers of fiscal "overkill" in the program of fiscal restraint. While these dangers should not be dismissed out-of-hand, they are unlikely to eventuate. The move to fiscal restraint has restored a much better balance of effort between fiscal and monetary policy. Adaptation of the fiscal-monetary mix to changing circumstances can be done.

A major piece of unfinished business in the economic area is an effective program for cost-price stability. The association of low levels of unemployment with price inflation is not a problem peculiar to the United States. All major countries have sought to devise some means to insure a workable pattern of wage-price stability. None of these efforts can, as yet, be regarded as completely successful. Some have worked very well—such as our own wage-price guideposts—until subjected to excessive demand pressures. But in no case has a completely successful approach been devised.

Formerly, it had been hoped that effective use of monetary and fiscal policy might be sufficient to achieve full employment without inflation. But both our own experience and that of every Western nation suggest that monetary and fiscal policy, alone, are not enough. A Cabinet Committee on Price Stability, appointed by President Johnson, has been heavily engaged in a study of how to effect a return to a workable pattern of wage-price stability. With fiscal restraints in place, the economic environment next year should permit substantial progress toward wage-price stability. The efforts of an incoming Administration in this area will deserve full support.

Another set of problems—not new, but newly recognized—is in the social area. Indeed, the contrast between affluence and poverty, between promise and reality, has been sharpened by the demonstration that the economy can produce relative abundance. A rising tide of expectations has threatened at times to outpace even the vast productive achievements of later years.

I shall speak later of specific financial problems in this area. Here, I merely want to point out again that the American economy, running at full cruising speed, has great capacity to produce social as well as economic progress. It will be the task of the new Administration to insure continued capacity operation.

The balance of payments

I have spoken elsewhere, and in some detail, about the history and anatomy of the U.S. balance of payments. Here, it is necessary only to give a brief backward glance.

In any real sense, the United States did not have a balance of payments problem until the late 1950's. We did have statistical deficits in 11 of 17 years between 1941 and 1958, but the cumulative deficit, on the liquidity basis, was less than $10 billion, or not quite $600 million per year. We actually gained gold reserves in that period. The entire deficit, and more, was financed by increased dollar holdings of foreigners. The dollar was not only as good as gold; it was better, because the dollar holder earned interest.

The basic reasons for our balance of payments strength were our overwhelmingly strong economy, relative to a world just recovering from the ravages of global war, and our equally overwhelming strength in our international reserves. We had a large surplus on trade and services and a modest surplus on capital account, if we consider the income on foreign investment as well as the outflow. We spent heavily on foreign aid—both grant and loan—and we carried almost all of the burden of free world defense.

In other words, we acted the part of a great, a strong, and a responsible nation.

But, after 1957, there was a changed situation. The rest of the world had grown stronger and more competitive—particularly the industrial countries of Western Europe and Japan. Our surplus on trade and services shrank. We managed to cut back some on Government and military expenditures abroad, but we continued to carry a disproportionate burden of free world defense. And capital flowed out in increasing volume. Even with rising returns on our foreign investment, we went from surplus to deficit on capital account—a deficit which totaled $2.5 billion in 1964, the worst year.

In just 3 years, 1958–60, we had a balance of payments deficit of more than $11 billion—more than the total for the previous 17 years. From 1961 through 1964, the deficit was cut back, mainly by reduced expenditures abroad for military and Government account and by a better trade surplus, as our costs and prices were held steady. The average deficit for 1958–60 was $3.7 billion; for 1961–64, it was $2.5 billion.

The balance of payments programs of 1965 and 1966 led to improvement in the capital account, and the deficits were cut again—to an average of $1.3 billion. Then, in 1967, a whole series of events—most particularly the uncertainties in the international exchanges, a rise in capital outflows and in the foreign exchange costs of Vietnam, and some deterioration in our trade and service account—brought the deficit back to $3.6 billion.

The President's January 1, 1968, program was designed to bring us back into balance of payments equilibrium, to restore confidence in the dollar, and to strengthen the international monetary system.

The program was in two primary parts. First, and of key importance, was the President's call for tax increase and expenditure control, wage and price restraint, and the avoidance of crippling strikes that would inhibit exports and increase imports. Second was a series of five programs: two designed to lessen net capital outflow for direct investment, portfolio investment, and foreign loans; one aimed at further net reduction in our expenditures abroad on Government and military account; one aimed at export expansion; and one aimed at reduction in our tourist expenditures abroad.

All parts of the program were and are necessary. We, and the rest of the world, have learned that proper fiscal and monetary policies are a necessary—vital, if you will—but not sufficient condition for balance of payments equilibrium. A lot of capital outflow, military expenditures, and tourist expenditures are not responsive to fiscal and monetary policies.

Here it is important to recognize three facts.

First, we should not weaken our security efforts in any substantive or real sense, but we should work toward full implementation of the principle that the foreign exchange costs of the common defense should be neutralized—there should be no windfall gains or losses. We have done a lot in this field, but we need to do more—our net costs are still far too high.

Second, the program on direct investment has not aimed at reducing gross investment abroad but at reduction in the financing flows from the United States. The volume of our direct investment has continued to increase substantially, but more of it is being financed by borrowing abroad. The goose that lays the golden eggs is very much alive—and the eggs have gotten bigger.

Third, our net deficit on tourist account was about $2 billion last year. The longrun solution is to increase tourism by foreigners in the United States. But it is important to cut the net drain now.

Our payments position has shown sharp improvement so far in 1968. On a seasonally adjusted liquidity basis, the last quarter 1967 deficit was $1.7 billion. In the first quarter of 1968, it dropped to $660 million and, in the second quarter, to $170 million. Preliminary indications for the third quarter are encouraging.

Thus, the program—to the extent it has been carried out—is working well. I have already noted that the fiscal program was not put into force until mid-year. It had an immediate effect on confidence, and it should have a favorable effect on the trade balance, as it works to cool off the economy. With an overheated economy in the first half of this year and with strikes, or anticipated strikes, in key areas—on the docks, in copper and in steel—our imports rose sharply, and our trade surplus was virtually destroyed. It should improve in future months, as a better balanced economy reduces the excessively swollen volume of our imports. But we need to improve exports as well. That means we must hold and improve our international competitive position.

The gains we have registered so far this year have come mainly in the capital accounts. We have reduced the outflow from bank lending and on direct investment account—the latter, as noted, by borrowing abroad. We have benefited solidly by the heavy inflow of foreign capital into American equities—reflecting confidence in the U.S. economy and in the dollar. And we have had considerable success in reducing the net foreign exchange costs of Government and military spending abroad.

But it is both premature and immature to talk of dismantling any elements of the balance of payments program. We need large and sustained improvement in our trade surplus; we need effective action to contain the travel deficit; and we need fuller cooperation to neutralize the foreign exchange costs of our military and Government expenditures abroad. It would be the height of irresponsibility to relax any part of our program now.

The strength of the dollar internationally, and the structure of the international monetary system, require that we reach sustainable and reasonable balance in our international accounts.

Gold.—Following the devaluation of sterling in November 1967, the gold markets came under heavy speculative pressure. Of the total U.S. gold outflow last year of $1.2 billion, more than $1 billion came in the fourth quarter. In the first quarter of 1968, the outflow increased to $1.4 billion. In March, the United States and her Gold Pool partners took action to arrest the drain on monetary gold stocks and the Washington Communiqué of March 17 effectively separated the private gold market from the monetary gold circuit.

On September 24, 1968, Secretary Fowler, in a major speech, restated the U.S. position on the international monetary system and the role of gold in the system. He noted that the international monetary system rests on four pillars:

"—A strong and well-balanced U.S. economy with a strong dollar * * *

—A fixed $35 per ounce official price of gold and a dollar convertible into gold at that price by monetary authorities.

—Convertibility of other currencies into dollars at stated rates of exchange.

—Adequate international reserves and credit facilities to support the system."

The Gold Pool countries recognized these points in their Washington Communiqué when they stated that "as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market." Two weeks later at Stockholm, the Ministers and Governors of the Group of Ten countries "reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world based on the present official price of gold."

In his September 24 speech, Secretary Fowler said:

"The international monetary system has a vital stake in maintaining the value of gold in existing monetary reserves at $35 an ounce—neither less nor more. * * * It is clearly within the capabilities of the system to provide such an assurance, and the United States believes it is important to the stability of the system that this be done. But, for gold producing countries, that assurance must run only to their monetary reserves and only after they have disposed of their newly mined gold, and any price stability assurance that is provided should not apply to newly mined gold or that held in private hands.

"In giving assurance on existing monetary reserves, we will not accede to any proposal that puts a floor under the private market, thereby assuring the speculators who have built up their hoards of gold that they may unload it at no less than the monetary price.

* * * * * * *

"Given the unique position of gold as both a commodity and a monetary instrument, special problems could still arise in the two-tier system. It should be possible to devise solutions for such problems—provided such solutions are designed to strengthen and do not threaten to weaken the two-tier system for gold and the monetary system as a whole."

The two-tier gold system has worked well since its birth last March. In large part, that has been due to the widespread support for the system among the countries of the free world, as well as those countries which issued the Washington and Stockholm statements. In part, it has been due to the strengthened confidence in the U.S. economy and the dollar.

The signatories of the Washington and Stockholm Communiqués recognize the point made by Secretary Fowler that there may be some special problems

that could still arise in the two-tier system for gold producing countries, and particularly for South Africa, which depends heavily on gold as an export product. Last Friday, in Washington, they issued the following statement:

"The Central Bank Governors of Belgium, Canada, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States met during the meetings of the Bank and Fund. Representatives of the International Monetary Fund and the Bank for International Settlements also attended the meeting.

"The Governors unanimously agreed on a common position based on the Washington declaration of March 17, 1968, regarding the disposal of newly mined gold. It has, however, not proved possible to reach agreement with South Africa at this meeting."

The statement, of course, speaks for itself. The central point is the unanimous agreement on a common position based on the Washington declaration. These important countries are united and, I am sure, are supported by the vast majority of countries belonging to the IMF.

Financial problems of the future

During the next 10 years, two major problem areas of finance will challenge the best efforts of the United States and one, perhaps both of them, will require concentrated attention by other advanced countries of the world.

For the United States, the first problem—bigger by far than the second in terms of financial requirements—is to find ways to provide capital finance for public purposes designed to strengthen and improve what might be called social welfare infrastructure. By this term, I mean urban redevelopment, the renovation of the ghettos, the provision of public housing, the enlargement of public education and health facilities, the restructuring of transportation facilities, and the provision of clean water and air.

In one sense, the problem is not a new one; in a more realistic sense, it is a brand new one by virtue of its recognition and by virtue of the very size of its financial requirements. Let me give you some indication of its size.

Net State and local debt in 1947 was less than $15 billion. Last year, it was $113 billion—almost $100 billion larger than 20 years earlier. Mere continuance of that trend would make it $240 billion 10 years from now. Add in the new programs noted above, and it is not difficult to visualize another $150 billion requirement. It is clear that requirements of this order of magnitude will demand the most efficient, imaginative, and sound means of mobilizing capital that we can devise.

I have spoken elsewhere of one approach to this problem—a National Urban Development Bank. Other suggestions have been made—for a Municipal Bond Guarantee Corporation; for a Community Development Bank; for a Domestic Development Bank. Each is aimed at the basic objective of providing an efficient means of mobilizing the Nation's capital resources. We shall need to come to a consensus on a particular approach.

That approach should embody two basic principles:

—Development of one efficient marketing instrument with broad investment appeal.

—Coordination of issues and control over programs requiring finance.

A development institution would issue its own securities, backed by Federal guarantee, and relend the proceeds to program agencies—either Federal lending agencies or directly to State and local agencies, depending on congressional decisions as to individual program structure and control. Aside from the Federal guarantee, which would help marketing and minimize interest costs, a Federal Government contribution, to the extent necessary and desirable, could come from interest rate subsidies—clearly identified—provided by direct congressional appropriations.

The second problem, which will affect both the United States and other advanced countries, is to find ways to provide increased developmental capital finance for the less-developed countries of the world—both for infrastructure and for expansion of the agricultural and industrial base.

The financial requirements for the United States, or for any other country, are significantly less than those for domestic social welfare infrastructure, but there are other problems—perhaps most notably the balance of payments problem. Methods must be devised to fit these financing needs into the balance of payments adjustment process so that, when a country is in surplus, it can export more capital to developing countries and, when in deficit, it can export less. At the same

time, it is desirable to increase the total amount of capital export and assure that volume for a period of time.

The United States proposed an approach of this type in the current replenishment of funds for the International Development Association. The Organization for Economic Cooperation and Development, composed of some 20 countries, suggested, in a 1966 report on the adjustment process, that surplus countries open their capital markets more freely to borrowings by international financial institutions, such as the World Bank or the regional development banks. Both of these approaches need further development and implementation through international agreement. Both will lead to more multilateralization of development finance, which should be more efficient, both in terms of raising the capital and in terms of channeling it where it can do the most good.

Finally, I should note two points. Both of these financial problems—domestic social welfare infrastructure and development finance—can be resolved only within a framework of a strongly expanding domestic and world economy. That is an absolute requirement to generate the savings and the tax revenues for the needed finance. And growing economies, themselves, need the thrust of dynamic new investment, which itself, requires high savings.

Exhibit 20.—Statement by Under Secretary Walker, March 26, 1969, before the Senate Banking and Currency Committee, on interest rates

Interest rates are at the highest levels in modern times, not as a result of current policies to cool an overheated economy, but as a result of the inadequate fiscal and monetary policies which permitted inflation to gain control of economic events.

It follows that interest rates should recede to more normal levels as the economy is cooled and—more importantly in the short run—inflationary expectations diminish.

It is tempting to seek out scapegoats for unpopular events. For rising interest rates, such scapegoats include the Federal Reserve, banks and other lenders, or the Administration in office.

The fact is that today's ultrahigh rates can be traced directly to two significant errors in Federal economic policy:

(1) An unwillingness to pay, through taxes or lower domestic spending, for the escalation in Vietnam, a reluctance that handed us a huge $25 billion Federal deficit in the last fiscal year;

(2) An excessive rate of monetary growth in 1967 and 1968 when money supply narrowly defined—that is, demand deposits and currency—advanced at a rate of 6½ percent, and money supply broadly defined, including time deposits at commercial banks, grew at an annual rate of 10 percent.

The contribution of Federal deficits to rising interest rates is widely understood. They directly raise the cost of money as the Federal Government borrows more than it pays back. In addition, such deficits fuel inflationary fires and lead to the economic overheating that in turn stimulates heavy borrowing by businesses, consumers, and State and local governments.

Less understood is the contribution of an expansive monetary policy to rising interest rates. In years gone by, an easy money policy was thought to mean lower interest rates. Today most economists think an excessively expansionary monetary policy results in higher rates in the long run. How does this work?

In this way. When employment is high and little slack exists, additional and excessive injections of bank reserves, leading to a high rate of monetary growth, do little to increase production. They result primarily in higher prices.

Rising prices and economic overheating generate still stronger demands for funds. They also tend to reduce the willingness of lenders to lend. Both actions push interest rates higher. If the Federal Reserve injects still more funds in an attempt to slow the rise in interest rates, the result is just the reverse. Rates rise even faster as inflation gains strength and inflationary expectations mount.

One should not be too critical of the overly expansive monetary policies during periods of high Treasury deficits. It is very difficult for the Federal Reserve to contain monetary growth when Treasury borrowings are large and frequent. But in the latter part of 1968, when the Federal budget was moving toward

balance, money supply grew at an annual rate of 6 percent to 12 percent (depending on the definition). This high rate of monetary growth can be viewed as a significant factor accounting for today's high interest rates.

The past is behind us. What matters now is current and future policy. What should it be?

Fiscal and monetary policies of today are appropriately geared to the economy's needs. The budget is in surplus and we are determined to keep it there. Monetary policy is clearly restrictive, and I understand that the Federal Reserve authorities are determined to maintain that posture.

But is this correct, why do we not see some easing of inflationary pressures, some cooling of the economy, some fallback in interest rates?

We must be patient. The imbalances, distortions, and disruptive expectations resulting from four years of inflation cannot be corrected overnight. But they can and will be corrected, if only we persist in restraint.

Our goal is to achieve a significant reduction in inflationary pressures this year. But this does not mean that some relief from current high interest rates must await that event.

The fact is that the inflationary expectations of borrowers and lenders are what added the extra push to the interest rate structure. Borrowers are seeking funds now in order to avoid both the higher prices and the higher interest rates they expect later. Lenders are reluctant to commit their funds so long as they fear a combination of higher rates and lower-valued dollars.

This means that pressures on interest rates should begin to subside when borrowers and investors finally conclude that this Administration is indeed determined to bring inflation to a halt. This conclusion on the part of market participants could come relatively soon.

The ending of inflation and inflationary expectations is the key to all the goals described in these hearings. The real enemy of the home buyer is inflation because it has raised the cost of the home he purchases by over one-sixth in the last 4 years alone. And the higher interest rates that have resulted from that inflation have added to his burden.

Primarily, the small businessman can in the long run only gain from a halt to inflation and the lower interest rates that are sure to result. As interest rates fall back, the State and local governments which recently have been cut out of the bond market will be able to obtain the funds they seek. Farmers, heavily dependent on debt, will benefit too.

To recapitulate: The ultrahigh interest rates of today are not primarily the reflection of current policy but the result of the inappropriate policies of the past which permitted inflation to infect the economy. Current policies are properly attuned to ending that inflation. When this occurs, interest rates will recede—to the benefit of all groups that rely heavily on credit.

Exhibit 21.—Other Treasury testimony published in hearings before congressional committees, July 1, 1968–June 30, 1969

Secretary Kennedy

Testimony on H.R. 6778, a bill to amend the Bank Holding Company Act of 1956, published in hearings before the Committee on Banking and Currency, House of Representatives, 91st Congress, 1st session, Part I, April 17 and 24, 1969, pages 84–193 and 399–487.

Public Debt and Financial Management

Exhibit 22.—Statement by Secretary Kennedy, March 5, 1969, before the House Ways and Means Committee, on the public debt ceiling

The President in his message to the Congress on February 24, 1969, requested the prompt enactment of legislation to revise the debt ceiling. Specifically, he proposed a new permanent statutory ceiling for the Federal debt of $300 billion under a definition according with the unified budget concept. This new statutory debt ceiling is designed to take care of our needs indefinitely into the future for as long as we are successful in maintaining a balance in the budget.

363-222—70——17

The new ceiling is required to meet three specific objectives:

First, the proposed ceiling will enable the Treasury to meet anticipated cash requirements in an orderly way through the middle of April of this year.

Second, the proposed limit will meet requirements anticipated for fiscal year 1970.

Third, by bringing the debt ceiling into accord with the budget presentations now used by the Federal Government and by focusing attention on total borrowings from the public, the proposal will promote a better understanding of public finance and contribute to more effective control of the debt.

Under existing law the Treasury has been operating very close to the temporary ceiling of $365 billion. At the end of January and February, debt subject to the limit was within $3 billion to $3½ billion of the statutory ceiling and on individual days the leeway has been less than $1 billion. Assuming normal cash balances of $4 billion, our latest projections—while reflecting better-than-anticipated tax collections over the past month—still indicate financing needs that would bring us above the legal ceiling by minor amounts for 6 days in March and by substantial amounts for 7 days in April.

By permitting our cash balance to decline below the levels required by prudent financial management, by exercising close control on those balances by borrowing from the Federal Reserve on a day-to-day basis, and by making maximum use of agency borrowing that does not come under the debt limit, we might be able to squeeze through this period without disturbing the orderly flow of expenditures or tax refunds. However, the margin in March and April is extremely tight. Unforeseen expenditure increases above projections or declines in revenues below projections, even of relatively minor proportion, would impair our ability to get through the April period without extraordinary measures to conserve cash. Essentially, we have no leeway for emergencies.

With expenditures and tax receipts running about $750 million per day, even the most careful projections need to be revised frequently, and some deviation in the actual results are normal and expected. Fortunately, recent results have indicated receipts are flowing somewhat more strongly than the projections available when I took office. But prudent management of the Government's financial affairs simply does not warrant undertaking the risk of confining our margins of flexibility under the debt ceiling to a few hundred million dollars.

After mid-April, we should readily get through the remainder of this fiscal year. The outstanding debt will be declining sharply, and our financing pattern will permit us to be comfortably below the ceiling for the rest of the year.

However, an increase in the ceiling will certainly be required in the early part of fiscal 1970. The situation can be illustrated by using the numbers in the budget message submitted by the prior Administration. As you remember, that budget forecast a surplus on the unified budget basis of $2.4 billion in fiscal year 1969 and $3.4 billion in fiscal year 1970. Assuming these projected surpluses can be realized, our estimates indicate that at the seasonal peak in fiscal 1970 the debt subject to the limit under its current definition will be $374 billion, far in excess of the present seasonal limit of $365 billion.

As the Budget Director will explain in more detail, we have some reservations concerning the expenditure figures in the budget and anticipate spending in some categories will be greater than estimated by the outgoing Administration. Because our review is not yet completed, we cannot now tell the extent to which urgent efforts to achieve further economies will offset these higher costs. But it is evident that no practical savings can avoid the need for an increase in the debt ceiling next year.

Our debt projections have been constructed on the basis of an assumed $4 billion operating cash balance as is the usual practice in these hearings. That more or less arbitrary amount, I might point out, was first established for debt limit projections years ago when Federal expenditures were less than half the current annual totals. In the latest fiscal year, 1968, even with tight cash management our operating balances averaged $5.1 billion. Our average balance has not averaged $4.0 billion or less since fiscal year 1958. Nevertheless, even with no further allowance for contingencies, the current debt ceiling will be inadequate to take care of our needs.

It has long been recognized in past hearings and legislation that prudent management of the Government's finances requires adequate allowance for contingencies beyond the assumption of a $4.0 billion cash balance. In reviewing the problem this time, we are particularly conscious of several special factors in the situation.

Perhaps most important quantitatively, the surtax on individuals and corporations is scheduled to expire on June 30, 1969. As best we can now look ahead, we anticipate that this surtax will need to be retained to maintain an appropriate budgetary posture. However, we must consider the consequences of expiration. The revenues that the surtax would supply in fiscal year 1970 are estimated at $9.0 billion, and there would be an earlier shortfall of $0.5 billion in fiscal year 1969. This contingency alone, were it to materialize, would be several times the projected surplus for 1970 shown in the budget.

There are also the uncertainties of revenue shortfall that could occur from a more moderate rate of economic growth. The budget for 1970 included $10.7 billion of higher revenues attributable primarily to higher individual and corporate income from economic growth and inflation. A full measure of success in our efforts to moderate rising prices could result in a reduction of this estimated gain in revenues.

These possibilities, on top of all the more or less normal uncertainties in anticipating cash needs more than a year ahead, in our judgment justify a larger than normal contingency allowance. We are, therefore, requesting a margin of $8 billion over the projected peak debt totals. We feel that this is the smallest allowance that we can, with prudence and reason, request in setting a debt limit that we hope to be able to maintain for the indefinite future. It is smaller than the contingency allowance provided in 1967. I believe a still larger allowance could certainly be justified.

With this allowance, the need for the statutory debt limit on the present basis amounts to $382 billion. The President has, however, proposed that we now change the statutory definition of the debt limit to conform to the unified budget concept. We strongly support this redefinition and urge its acceptance. On this basis we will need a ceiling of $300 billion to provide the same margin for contingencies as would be provided by the $382 billion figure on the present definition.

The statutory debt limit can, of course, be defined in any way that the Congress sees fit. As I understand it, the main purpose of the statutory debt limit and these hearings is to provide the Congress an opportunity to review in a comprehensive way the outlook for the Government's finances and to authorize the Treasury to issue indebtedness in the light of this review. It seems to me that, to facilitate this review and to best achieve the congressional purpose, the changes in debt subject to limit should be related as nearly as possible to the net budget results. This would greatly clarify congressional appraisal of the impact of Government finances on the debt limit and contribute greatly to better understanding by the public. Thus, we do see a clear public interest in placing the debt limit within the frame of the present unified budget presentations.

The unified budget has been used in both the last two budget messages. It was designed to avoid the confusion over various budget concepts formerly given wide publicity: (1) the administrative budget, (2) the cash budget, and (3) the national income accounts budget. Each of these served a different analytical need, but the net result was confusing. The unified budget concept was designed to eliminate this confusion and to enforce a consistent discipline on budgetary presentations, thus maintaining year-to-year comparability and facilitating analysis of the economic implications of Federal finances.

I had the honor of serving as Chairman on the President's Commission on Budget Concepts. As you know, that Commission was comprised of men of different political affiliations and experience from both the public and private world. They engaged in an intensive review of all the problems and unanimously recommended the adoption of the new budget concept.

Although the President's Commission on Budget Concepts did not specifically recommend a change in the statutory debt limit itself, the Commission did suggest that the limit be reexamined with the new debt concepts in mind. That is what the President has done. He concluded that the appropriate policy would be to make the debt limit consistent with the unified budget presentation.

This consistency is achieved partly by eliminating from the ceiling Federal securities owned by trust funds and other agencies. The laws establishing various trust funds require that we invest their surplus funds in Government securities. The interest on these investments provides additional earnings for the trust funds. But this investment accounting is internal; it does not affect the net surplus or deficit on the unified budget and no funds flow from or to the public on these transactions. Nevertheless, the securities provided the trust funds are included in

the present statutory definition and this results in the anomaly of the ceiling needing to be raised at a time when the overall budget is operating at a surplus.

The fact is that, so long as the trust funds are operating at a surplus and thus acquiring additional Treasury issues, the debt subject to the ceiling will increase even if the overall budget is in balance. The trust funds are projected to provide surpluses of $9.4 billion and $10.3 billion in the fiscal years 1969 and 1970, respectively. That alone is the reason why the debt on the present statutory basis will continue rising, even though the unified budget is in surplus and the debt held by the public is projected to decline.

Conversely, if at some time in the future the trust funds happened to operate at a deficit, the debt on the present definition might decline, even though the unified budget had no surplus.

Clearly, this situation could give rise to results out of keeping with the intent of the Congress in setting a debt limit. For instance, a larger-than-anticipated surplus in the trust funds, which as trustee I must invest in public debt, could result in a tighter ceiling on public borrowing than the Congress intended. A smaller surplus or deficit in the trust funds, on the other hand, would provide more leeway.

The second general way in which the new debt limit will importantly improve understanding and control of public finances is to include the debt issues of agencies in which the U.S. Government has an ownership interest. This will add the debt issues of TVA, the Export-Import Bank, Defense family housing, and the participation certificates issued by FNMA before and after the fiscal year 1968. In contrast, the present limit includes only the FNMA participation certificates issued in 1968 and lesser amounts of debentures or bonds issued by the Federal Housing Administration and the District of Columbia.

This change to a uniform treatment of all agency issues side-by-side with direct Treasury debt will for the first time relate the debt ceiling to the total of Federal borrowing demands in the financial markets. This is the total appropriate for governing and controlling these aggregate demands.

Your committee in prior hearings has focused intensively on the problems generated by use of agency and participation certificate financings as a substitute for direct financing by the Treasury. Under the proposed concept, the choice between agency issues and direct Treasury issues has no effect on the debt limit. Thus, the appropriate financing mechanism, whether by direct Treasury issues or agency borrowing, can be considered entirely on its own merits without any suspicions that the choice has been affected by a desire to finance in ways that will not show in the debt limit. There have been allegations in recent years that the Government was using agency financing to get around the statutory debt limit and for budget "gimmickry." Whether true or false, the important thing is to eliminate the possibility and provide for the treatment of the debt that best assures public confidence in the integrity of the Government's financial arrangements.

I would emphasize that the exclusion of the holdings of Government accounts, including trust funds, from the debt ceiling in no way effects the operations or investments of the Federal trust funds. These funds operate under statutory provisions covering their revenues, benefit payments, and investments. The statutes thus assure that these funds will continue to operate as they have in the past and, as the managing trustee of many of these funds, I pledge that their investment management will be carried out in full accordance with the law and the intent of the law. Indeed, removal of these securities from the debt limit should provide an additional element of protection for the trust funds, for it assures that a Secretary of the Treasury will never be faced with a conflict between his statutory duty to remain within the debt ceiling and his responsibility to maintain full investment of the monies in the trust funds.

In conclusion, we have examined the need for prompt debt limit action and the need for a redefinition of the debt subject to the limit. We urge the prompt enactment of legislation providing a new permanent ceiling of $300 billion as recommended by the President.

The following tables show our estimates of the semimonthly debt totals through June 1970 on the new basis consistent with the January budget presentation.

TABLE I.—*Public debt subject to proposed new limitation, fiscal year 1969*

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation		Operating cash balance (excluding free gold)	Public debt subject to limitation
ACTUAL					
1968			*1968*—Continued		
June 30	$5.2	$290.6	Nov. 15	$2.0	$295.1
July 15	5.6	294.8	Nov. 30	2.7	295.4
July 31	5.9	294.6	Dec. 15	1.0	296.6
Aug. 15	5.4	296.6	Dec. 31	4.6	291.9
Aug. 31	4.5	297.5	*1969*		
Sept. 15	1.3	297.7	Jan. 15	1.8	291.9
Sept. 30	8.5	292.9	Jan. 31	7.1	293.5
Oct. 15	4.4	293.0	Feb. 15	4.0	291.6
Oct. 31	6.4	296.1	Feb. 28	4.8	291.7
ESTIMATED [Based on constant minimum operating cash balance of $4.0 billion]					
1969			*1969*—Continued		
Mar. 15	$4.0	$293.6	May 15	$4.0	$287.5
Mar. 31	4.0	291.2	May 31	4.0	287.1
Apr. 15	4.0	294.8	June 15	4.0	286.8
Apr. 30	4.0	285.1	June 30	4.0	278.4

TABLE II.—*Estimated public debt subject to proposed new limitation, fiscal year 1970*

[In billions. Based on constant minimum operating cash balance of $4.0 billion]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	
			$3.0	$8.0
1969				
June 30	$4.0	$278.4	281.4	286.4
July 15	4.0	282.3	285.3	290.3
July 31	4.0	282.0	285.0	290.0
Aug. 15	4.0	285.3	288.3	293.3
Aug. 31	4.0	285.0	288.0	293.0
Sept. 15	4.0	288.3	291.3	296.3
Sept. 30	4.0	281.9	284.9	289.9
Oct. 15	4.0	286.3	289.3	294.3
Oct. 31	4.0	287.8	290.8	295.8
Nov. 15	4.0	291.3	294.3	299.3
Nov. 30	4.0	288.9	291.9	296.9
Dec. 15	4.0	291.4	294.4	299.4
Dec. 31	4.0	286.8	289.8	294.8
1970				
Jan. 15	4.0	290.3	293.3	298.3
Jan. 31	4.0	287.8	290.8	295.8
Feb. 15	4.0	290.0	293.0	298.0
Feb. 28	4.0	287.6	290.6	295.6
Mar. 15	4.0	291.1	294.1	299.1
Mar. 31	4.0	288.4	291.4	296.4
Apr. 15	4.0	291.7	294.7	299.7
Apr. 30	4.0	283.5	286.5	291.5
May 15	4.0	286.3	289.3	294.3
May 31	4.0	284.5	287.5	292.5
June 15	4.0	282.5	285.5	290.5
June 30	4.0	274.4	277.4	282.4

Exhibit 23.—Statement by Secretary Kennedy, March 24, 1969, before the Senate Finance Committee, on the public debt limit

I appreciate the opportunity to appear before your committee in regard to our request for action to raise the limit on the public debt. It is especially urgent that we secure prompt action on this request as we otherwise could be above the legal ceiling during the mid-April period.

The situation is illustrated by our experience in March. On the 14th of March we had securities outstanding in the amount of $364,717 million. We were within $283 million of the statutory ceiling, not much more than a third of one day's expenditures. We were able to do this only by reducing our cash balance to a level of $2.4 billion, far below the daily average of $5.1 billion in the fiscal year 1968. The position has improved somewhat, but we will be going into a far tighter situation in early April. On April 15, with the conventional $4.0 billion cash balance assumption used in these hearings in the past, our projections indicate that we will be over the ceiling by $2.2 billion. We can stay under the existing $365 billion ceiling only by drawing down our cash balances to a level of $1.8 billion. I might add that the ceiling is even tighter on the day before the mid-month point.

It is possible, by finer adjustment of our borrowing through daily drawings on the Federal Reserve System, that we could get through the April problem, but we will have no margin for any contingencies. With receipts and expenditures averaging nearly $750 million a day, you can see how any change in timing of either receipts or expenditures carries the risk of putting us over the statutory limit with the only alternative being a failure to pay our bills.

I hesitate to contemplate, as I am sure you do, the potential harm to the Nation's economy and to our position in the world economy from a failure to pay our legal and contractual obligations. Unless the debt limit is increased promptly, we face this prospect as a real possibility.

We are asking at this time for a revision in the debt limit to a permanent ceiling of $365 billion and a temporary allowance above that permanent ceiling of $12 billion through June 30, 1970. This was the bill that passed the House of Representatives. Because the April problem is almost upon us there is little time for action.

According to our projections for fiscal year 1970, the debt outstanding on March 15 will total $374.0 billion with an assumed cash balance of $4.0 billion. The bill before you provides a minimal leeway of $3 billion above that amount. I believe that a larger allowance for contingencies than $3 billion can be justified. However, we are willing to try on this basis to meet the problems in fiscal year 1970—fully aware that we may be back before this committee a year from now with another request for an increase in the debt limit.

The debt projections used in the attached tables are based on the January budget as presented by the previous Administration. As you know, that budget provided for a continuation of the surtax on individuals and corporations, which is scheduled to expire on June 30, 1969. It also included $10.7 billion of higher revenues attributable primarily to higher individual and corporate income from economic growth and inflation.

TABLE I.—*Public debt subject to present limitation, fiscal year 1969*

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation		Operating cash balance (excluding free gold)	Public debt subject to limitation
ACTUAL					
1968			*1968*—Continued		
June 30	$5.2	$350.7	Nov. 30	$2.7	$360.1
July 15	5.6	354.8	Dec. 15	1.0	363.4
July 31	5.9	354.3	Dec. 31	4.6	361.2
Aug. 15	5.4	357.2	*1969*		
Aug. 31	4.5	357.5	Jan. 15	1.8	362.9
Sept. 15	1.3	358.7	Jan. 31	7.1	362.6
Sept. 30	8.5	357.9	Feb. 15	4.0	362.9
Oct. 15	4.4	358.9	Feb. 28	4.8	362.0
Oct. 31	6.4	360.4	Mar. 14	2.4	364.7
Nov. 15	2.0	360.5	Mar. 17	2.1	364.1
ESTIMATED [Based on constant minimum operating cash balance of $4.0 billion]					
1969			*1969*—Continued		
Mar. 31	$4.0	$362.1	May 31	$4.0	$361.9
Apr. 15	4.0	367.2	June 15	4.0	362.7
Apr. 30	4.0	356.9	June 30	4.0	354.6
May 15	4.0	361.1			

TABLE II.—*Estimated public debt subject to present limitation, fiscal year 1970*

[In billions. Based on constant minimum operating cash balance of $4.0 billion]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	
1969			$3.0	$8.0
June 30	$4.0	$354.6	357.6	362.6
July 15	4.0	359.4	362.4	367.4
July 31	4.0	358.3	361.3	366.3
Aug. 15	4.0	362.8	365.8	370.8
Aug. 31	4.0	363.3	366.3	371.3
Sept. 15	4.0	367.6	370.6	375.6
Sept. 30	4.0	360.6	363.6	368.6
Oct. 15	4.0	365.9	368.9	373.9
Oct. 31	4.0	366.0	369.0	374.0
Nov. 15	4.0	370.7	373.7	378.7
Nov. 30	4.0	368.4	371.4	376.4
Dec. 15	4.0	373.3	376.3	381.3
Dec. 31	4.0	366.6	369.6	374.6
1970				
Jan. 15	4.0	371.7	374.7	379.7
Jan. 31	4.0	367.3	370.3	375.3
Feb. 15	4.0	370.2	373.2	378.2
Feb. 28	4.0	368.7	371.7	376.7
Mar. 15	4.0	374.0	377.0	382.0
Mar. 31	4.0	369.5	372.5	377.5
Apr. 15	4.0	373.7	376.7	381.7
Apr. 30	4.0	365.4	368.4	373.4
May 15	4.0	370.6	373.6	378.6
May 31	4.0	369.2	372.2	377.2
June 15	4.0	368.3	371.3	376.3
June 30	4.0	361.4	364.4	369.4

Exhibit 24.—Remarks by Under Secretary for Monetary Affairs Deming, October 23, 1968, before the National Convention of the Bank Administration Institute, Atlanta, Georgia, on Federal finance

My talk today deals with the shortrun outlook for Federal finance and with some long term aspects of the growing capital requirements for public purposes. The shortrun period is fiscal 1969—July 1, 1968, through June 30, 1969. The longer period cannot be so precisely defined in terms of time but may be thought of as covering the next 10 years to 12 years—through the 1970's.

Both short and long term aspects are important. They both have implications for markets, for interest rates, for debt management, for fiscal policy, and for monetary policy.

The shortrun outlook for Federal finance

To comprehend the shortrun outlook for Federal finance, it is highly important to grasp two fundamental background points—one substantive and the other technical.

The substantive point is that the Federal Government's budget deficit will swing from $25.4 billion in fiscal 1968 to less than $5 billion in fiscal 1969. That is the key economic point which I want to develop in detail.

The technical point has to do with the new unified budget concept introduced in January of this year, based on the recommendations of the presidentially appointed Commission on Budget Concepts chaired by David M. Kennedy, Chairman of the Continental Illinois National Bank and Trust Company. In general, the new unified budget makes it much easier to analyze and understand the impact of Federal fiscal policy decisions on the money and capital markets. Nevertheless, since some Federal lending agencies were in the budget in fiscal 1968 but either are or will be out of it in fiscal 1969, when I talk of the differing market impact of Federal finance in these 2 fiscal years, I shall do some reconciliation. I'll go into that point in a bit more detail later.

Let us look first at the key point of substance.

Enactment and approval in June of the Revenue and Expenditure Control Act of 1968 initiated a major turnabout in the fiscal position of the Federal Government and a reversal of its impact upon the money and capital markets.

The budget deficit for fiscal 1968 was $25.4 billion. The January budget message estimated the fiscal 1969 deficit at $8 billion, with expenditures projected at $186.1 billion and revenues at $178.1 billion. The latter figure assumed legislative passage of the requested 10 percent surcharge on corporate and individual income taxes, continuation of the excise taxes originally scheduled for reduction on April 1, 1968, and the scheduled increase in Social Security taxes on January 1, 1969.

As passed, the legislation included the surcharge and excise tax actions. It also included a ceiling on expenditures for fiscal 1969 and required, in addition, a $10 billion cut in new obligational authority.

The ceiling on fiscal 1969 expenditures, in effect, requires a $6 billion cut in spending. By the time the legislation was passed, the original expenditure estimate of $186.1 billion, which included net Federal lending, had been raised by $4.4 billion, due mainly to increased costs in four categories—Vietnam ($2.3 billion), interest payments ($900 million), veterans' benefits ($400 million), and various payments from social security trust funds ($800 million). While the spending ceiling was set in the legislation at $180.1 billion, increases in these areas were exempted, so that the effective ceiling became $184.4 billion. Subsequent exemptions were given certain TVA expenditures, Commodity Credit programs, and certain matching grants to the States for social welfare. The exemptions mean that nonexempted programs will not have to be cut further if exempted expenditures run above estimates. But cuts of $6 billion have to be made in the nonexempted spending categories.

The midyear budget review, completed just a month or so ago, estimated fiscal 1969 outlays, including Federal lending, at $184.4 billion—the effective ceiling level. Revenues were estimated at $179.4 billion, up from the original estimate mainly because late passage of the tax legislation had the effect of throwing some revenue originally expected in fiscal 1968 into fiscal 1969. The deficit for fiscal 1969 thus was forecast at $5 billion.

That figure is likely to be reduced. Even with the exemptions noted above, it is expected that fiscal 1969 outlays will stay roughly in line with the ceiling

figure and run in the neighborhood of $185 billion. Revenues in September and October, however, have been running significantly higher than expected. Therefore, I expect the fiscal 1969 deficit to be appreciably below $5 billion. I shall note later what effect this has on our borrowing plans for the remainder of this calendar year.

A budget swing of more than $20 billion will have a major effect upon the course of the economy in fiscal 1969, as well as on the volume of Federal financial demand in the money and capital markets. I certainly do not expect the economy to shrug off, without notice, the tax-expenditure package any more than I expect it to be thrown into a recession by fiscal overkill.

The economy was and is stronger than was believed when fiscal overkill was talked about. Such weaknesses as were stressed seemed to be transitory, rather than fundamental. They probably reflected as much as anything the undesirable imbalance in our policy measures which resulted from the long delay in enactment of the tax-expenditure legislation.

Certainly no one responsible for policy expects recession to come from the fiscal measures. The goal is to slow down the economy to a safe cruising speed—not to slam on the brakes for an abrupt stop. The adjustment seems to be proceeding smoothly, rather than abruptly, but it is proceeding. The third quarter GNP increase was down from the second quarter rise, but by less than I had hoped. Fourth quarter figures should indicate further slowdown. I expect—indeed, we should all hope—that the retardation will be gradual but also positive and effective.

I turn now to the second background point—the technical one.

The new unified budget draws all Federal accounts into one budget. It thus is much more meaningful than the former budget presentations in measuring the overall economic impact of Federal fiscal operations.

The new unified budget includes in its outlay totals the net lending of Federal agencies—but only those agencies in which there is an element of Federal ownership. From a budget standpoint, the net lending concept is measured by the difference between loan disbursements and repayments. The latter includes prepayments and direct sales of assets. It does not include the issuance of participation certificates, which are treated as a means of financing, rather than as negative expenditures.

From a broad economic viewpoint, there is another concept of net lending by Federal agencies. That concept recognizes that, while agency activity affects the overall allocation of credit, on a net basis it is essentially neutral. What is borrowed in one sector of the market is used to supply funds to another.

For my purposes, I shall treat the total of Federal finance demand on the markets as including direct Treasury borrowing and agency borrowing without reference to it being inside or outside the budget.

The Federal land banks and the Federal home loan banks are not included in the budget totals because they are outside the budget—since there is no Federal ownership involved. The Budget Commission's test for inclusion or exclusion was Federal ownership. That recommendation was accepted by the Government. The fiscal 1968 and 1969 budget totals do not include the activities of these two agencies. Neverthless, I include their borrowings in my figures on Federal finance demand.

A complicating factor is that Fannie Mae's Secondary Market Operations went private in September. Its net lending consequently is in the fiscal 1968 budget total, but the activity of only one quarter is in the 1969 budget total I have given you. Just passed legislation permits the Federal Intermediate Credit Banks and the Banks for Cooperatives to retire their Government-owned stock, and they are expected to be outside the budget by yearend, although their activities are included in both the fiscal 1968 and 1969 totals I have cited. But, for my purposes, I include these agency borrowings in the total of Federal finance demand.

By these inclusions, I conform more to market appraisal than to real economic impact or to budget concept. In this transition period, this approach—for market purposes—seems appropriate.

Now, with these important background points out of the way, I turn to the specifics of the shortrun outlook for Federal finance.

It is useful to look at this in half-year periods, simply because there is a strong seasonal factor operating on revenues. The first half of each fiscal year—the July–December period—typically sees only about 45 percent of the entire fiscal

year revenues. The second half—the January–June period—brings in the other 55 percent. Apart from any rising or falling trend, expenditures are spread fairly evenly throughout the fiscal year. Thus, even with a budget in balance, there would be a deficit in the July–December period, matched by a surplus in the January–June period. The Treasury would borrow in the first half-year and repay in the second. This is a major reason why we finance a lot of our first half requirements with tax anticipation bills.

Now, let us look at the contrast between the two half-years of fiscal 1968 and the two half-years of fiscal 1969. Remember that the budget deficit for fiscal 1968 was $25.4 billion. While I expect the 1969 deficit to be less than $5 billion, I use the $5 billion figure because it is the latest official figure.

The swing between the two full fiscal years thus is $20.4 billion, and it is divided about equally between the half-years. The deficit between July–December 1967, was $19.7 billion; this half-year, we estimate it at $10.1 billion, a favorable swing of $9.6 billion. In the January–June 1968, period, the deficit was $5.7 billion; in the first half of calendar 1969, we expect a surplus of $5.1 billion, a favorable swing of $10.8 billion.

We need to translate these budget figures into market operations. That means that we have to adjust them for changes in Treasury cash position, for sales of securities—mainly specials or nonmarketables—to the Government investment accounts, for sales of nonmarketable securities to other holders, and for Federal Reserve Open Market operations. In addition, it will be useful to split borrowings between direct Treasury issues and agency issues—and add in not only the agency issues that are reflected in the budget but those outside the budget also. As noted, the latter adjustment is made solely for market impact comparability—the market still tends to view all agency finance as part of overall Government finance demand, whether or not it is technically within or without the budget.

The first comparison is between July–December 1967, and the same period in 1968. After all of the adjustments noted above, the net market demand of Federal finance—direct Treasury borrowings, plus agency borrowings—both in and out of the budget—was almost $15 billion in the 1967 period, as against an estimated $8.5 billion in the 1968 period—a swing of more than $6 billion. Net Treasury borrowings in the last 6 months of calendar 1967 were about $13 billion; in the similar period of 1968, they will be just $5.5 billion. Agency borrowings net in the two periods were or will be $1.7 billion and $3.1 billion.

But the real difference shows up when we break down the figures into quarters. In the third quarter of calendar 1967, net market borrowings on direct treasuries and agencies totaled about $8 billion. The third quarter of 1968 saw comparable borrowings of close to $7 billion—not much less than in the same period of the previous year. But, in the fourth quarter of last year, net Treasury and agency borrowings combined were almost $7 billion. In the fourth quarter of this year, they will net out to about $1 billion.

It is highly important to note this point. The peak demand of Federal finance on the markets is over. The Treasury has already raised all of the net new cash it needs in calendar 1968.

In effect, all it needs to do for the balance of this year is to rollover its maturing debt. This afternoon, the Treasury will announce its debt operations for the remainder of 1968. That announcement will indicate that, in view of increased revenues, net cash borrowing for the remainder of 1968 will be unnecessary.

The picture for January–June 1969, is even more favorable. In the first 6 months of this year, direct Treasury borrowing, plus agency borrowing—both inside and outside the budget—was almost $8 billion. In the first half of calendar 1969, it will be only $1.5 billion. And, after adjustment for Treasury cash, investment of Government Investment Accounts, assumed Federal Reserve Open Market purchases, and sales of nonmarketables, the swing will be almost $9 billion. That is, Federal finance, in effect, will be repaying the market $8 billion in the first 6 months of calendar 1969, rather than the net borrowing of about $1 billion in the comparable period of 1968.

To summarize, fourth quarter 1967, plus first half 1968, resulted in net market demand for Federal finance of about $9 billion. This was after adjustment for Treasury cash, purchases of Government Investment Accounts and the Federal Reserve, and sales of nonmarketables. It included all direct Treasury finance, plus all agency borrowings, whether within or without the budget.

Fourth quarter 1968, plus first half 1969, will result in a net market paydown of about $7 billion—on the same basis. That swing of $15 billion in lessened market demand measures the real impact of the fiscal package on Federal finance. It is a real swing, and a very significant one.

Given this picture, what is the outlook for interest rates? At a minimum, it is certainly hard to see upward pressure on them. In fact, with the economy expected to be running at a lower and safer speed, and with the sharply lessened requirements for Federal finance, it would seem reasonable to expect somewhat lower rates over the next six to nine months.

This should be healthy for the economy and for Federal finance.

Financing public requirements over the longer term

The preceding discussion clearly suggests that, over the near term future, the pressure on the securities market exerted by the public sector should, in the aggregate, diminish very markedly. The technical task of financing these requirements, moreover, should not present undue difficulties.

When we look ahead to the longer term, however—for the next 10 years or beyond—the picture is different. For here, the financing requirements that can be envisaged are truly formidable, and there is a pressing need for finding more imaginative and efficient means of mobilizing the needed capital.

The area that presents the greatest challenge relates to the financing of what I call the infrastructure for social welfare. In this area, needs have risen with dramatic force in the recent past—and promise to advance even more sharply in the years ahead. I include in this category urban redevelopment and renovation of ghettos, enlargement of public housing, restructuring of public transportation facilities, combating air and water pollution, and enlarged and improved education and health facilities.

Some of these tasks involve continuation of past activities. Others are essentially new in character. But, in the total, the magnitude of the financing requirements will be massive. It may almost be said that the change in quantity is prospectively so great as to make the financing problem a change in kind, as well as in amount.

Some of the activities I have cited may be undertaken and financed entirely by State and local governments. Some others may be wholly within the sphere of Federal responsibility. But, for the most part, these activities will require some form of Federal assistance to, and Federal partnership with, the State and local governments.

What is needed now—and is, indeed, beginning to take place—is a searching and comprehensive look as to how this partnership can be developed in the most effective and satisfactory fashion. It will require a proper balance between orderly overall direction and financial discipline and ample scope for local independence and flexibility. It will call for broad decisions on the absolute and relative amounts of the new needs to be financed directly from taxation and the extent to which they can be met initially by borrowing. Where taxation is involved, an optimum sharing of the burden between the Federal Government and States and localities is required. In the case of borrowing, questions arise as to the optimum mix between direct Federal borrowing, traditional State and local debt financing, and resort to other, and partly new, types of borrowing arrangements.

In all cases, there is a need to search for the most efficient, economical, and equitable means of financing—means that will optimize the benefits and minimize the overall costs to the taxpayer, means to permit the raising of funds in the capital markets at the lowest cost feasible, and means that can be flexibly adapted to changing needs. And, in my judgment, it is important that the financing procedure be clear and visible, so that intelligent choices among alternative methods can be made and subsidy elements can be clearly identified.

Let me concentrate here on those spending needs that are likely to be financed, at least in the first instance, largely through the issuance of debt, rather than by tax funds. Clearly, a major share of the emerging needs will have to be financed in this way. That does not mean, of course, that the Federal share can be met without a significant contribution from the tax side. This tax-financed contribution may come about in the form of debt service grants, involving payments of interest or of capital—or both—on locally issued debt; it may entail outright tax-financed Federal subsidies granted for projects that also require large public borrowing; it may result simply because States and localities can issue tax-exempt securities.

How large are the capital needs of the types considered here that are likely to arise over the next few years? How can they best be financed? And what impact is such financing likely to exert on capital markets generally?

The magnitude of the task.—In 1947, net State and local debt was less than $15 billion. By 1957, it had grown to $47 billion; and last year, it stood at $113 billion. A mere continuance of this growth trend would raise the level of outstanding State and local debt 10 years from now by about $120 billion—to a level of $240 billion.

But this is only part of the story. On top of the normal growth projected, it appears that there will be a very substantial increase in State and local debt as a result of new and expanded programs involving Federal financial assistance. Estimates of the likely magnitude of this increase vary widely, not only because the costs of different programs to solve our urgent social and environmental problems are often very difficult to project, but also because of different assessments as to how fully the States and localities will actually seek to meet these problems.

Let me just cite one type of calculation that illustrates this point. In 1968, the Congress enacted, or came close to enacting, provisions for Federal capital assistance in the form of debt service grants for a series of new or greatly expanded State and local programs. It is useful to look at the congressional authorizing legislation for such assistance and then to calculate what it implies for the growth of State and local debt financing.

For example, Congress authorized additional debt service grants for public housing of $150 million a year for the next 2 years. This will make possible a total of about $3 billion a year in additional local debt financing for this purpose. If one assumes that additional congressional authorizations will be maintained at the same level over the next decade, the total added debt from this program alone would come to $30 billion. I am not including projected Federal assistance to low income housing under this heading—this would be a much larger sum, since it would encompass private as well as public housing.

Using similar calculations for three other program areas on which Congress completed action in 1968, one finds a potential net increase in State and local debt over the next decade of about $20 billion for college housing, academic facilities, and the vocational education program, although some of this will presumably be for private nonprofit institutions.

The debt service grant approach was also authorized for the antiwater pollution program in legislation which passed both the House and the Senate this year, though it did not survive the adjournment rush. Assuming a continuation of the annual level of new dollar authorizations in the enabling legislation, the potential increase in State and local debt for these purposes over the next decade is $40 billion.

In addition, the Senate passed a bill in 1968 which authorized debt service grants on obligations issued by State and local bodies, as well as nonprofit institutions, for hospital modernization. The needs in this area have been estimated at over $10 billion.

Thus, assuming that the Congress follows through on the debt service grant approach in just these six program areas, the potential increase in State and local debt over the next decade is about $100 billion.

To this amount, one would need to add new financing requirements for mass transit, other urban redevelopment activities, municipal airports, anti-air pollution efforts, and other areas in which Federal programs have been established and are expected to be increased. Taking all this into account, it is not at all difficult to visualize a total rise in State and local debt over the next 10 years of $150 billion or more, in addition to the "normal" growth of $120 billion cited earlier. That would mean that, in 10 years, State and local debt would be rising by $30 billion to $35 billion or more a year, rather than by $10 billion, or less, as at present.

To some extent, the new programs cited may substitute for what I have counted as "normal" growth. But this overlap may not be large; the new programs cited will deal essentially with new types of needs. Also, the annual new dollar authorizations which Congress has now provided for the next few years may not be continued at the same level for a decade. Given the pressure of underlying needs, however, it seems at least as likely that, on balance, we will see increases rather than reductions in congressional authorizations as the decade progresses.

In citing these potentially very large figures, it has not been my purpose to suggest that the indicated requirements cannot be financed through debt issues.

My hunch is, in fact, that, in a strongly growing economy and with continued progress in tapping new sources of savings, the task will, in the end, prove manageable. If the economy expands at a rate in real terms of 4 percent to 4½ percent over the next decade—which is quite practicable under intelligent economic policies in both public and private sectors working together—we would have a GNP in 1978 of some $1.3 trillion, which would generate a lot more tax revenues and a lot more savings. But there can be no doubt that, even so, the task will be more manageable only if we have major improvements in methods of mobilizing capital.

The need for new financing approaches.—In calling for such improvements, I assume that the traditional means of financing State and local government needs will have a continued role, particularly in the financing of tasks that have customarily been entirely in the province of such governments. But I do not think that these means alone will be adequate to cope with the huge additional demands generated by new types of programs or that they can fully satisfy the criteria of maximum efficiency and economy.

As I have indicated previously, by far the most promising approach for mobilizing the needed new capital in a more efficient manner would seem to lie in the establishment of a new central financing institution for domestic development—such as a "National Urban Development Bank."

Many different proposals for such a central development financing institution have recently been offered, and the need is to reach agreement on the more precise characteristics of such an institution.

As I see it, the new institution would issue its own securities, backed by Federal guarantee and relend the proceeds to program agencies—either to Federal lending agencies or directly to State and local bodies, depending on congressional decisions as to individual program structure and control. Aside from the Federal guarantee, which would help marketing and minimize interest costs, a Federal contribution, to the extent necessary and desirable, could come from clearly identified interest rate subsidies given borrowers from the institution and provided by direct congressional appropriations.

The advantages of the new approach would be manifold.

First, the new institution could develop one efficient marketing instrument—or family of instruments—with broad appeal to various investor classes. It could thus tap a much wider market than the many instruments now being issued by a great variety of Federal agencies and State and local agencies receiving Federal assistance. The market for such instruments would also be likely to attain much greater depth than alternative financing means for urban development purposes. Thus, secondary markets should develop which would allow ready "shiftability" of the securities among investors. In speaking of "one" efficient marketing instrument, I do not necessarily mean that the institution would issue only a single type of instrument. It could offer a number of closely related types of securities, but tailored in ways that broaden the range of reachable investors, similar to the spectrum of offerings now used in Federal debt management, itself. But these instruments should be carefully designed to fit into a coherent whole. Probably variations in types should be relatively few for some time; and their relation to the Treasury's debt, itself, would have to be carefully considered.

Second, in contrast to the present fragmentation of financing efforts, the new institution would automatically provide for coordination of issues and control over programs requiring finance. Thus, a central financing institution would have the greatest flexibility in going to the market at the best time and with the volume, maturities, and other terms and conditions which would enable it to borrow at a significantly lower interest rate than could be obtained by several smaller, special purpose institutions, each with its own special problems of timing, seasonal factors and other program considerations.

I do not think, incidentally, that the answer to the financing problems over the next decade will be to establish a separate new institution for each problem area, such as an education bank, a pollution control bank, a transportation bank, etc. The difficulty with this approach—in addition to the duplication of effort and the problem of finding that much financing talent—is the proliferation of financing instruments which would develop and the problem of coordinating these issues in the market. Of course, even a central financing institution could decentralize its lending activities, either in terms of loan purpose or geographic region. But I think there is a persuasive case for a centralized approach to mobilizing capital funds.

Third, the new approach permits the most economical financing of the growing new needs, looked at either from the viewpoint of the Federal Government or from the viewpoint of State and local governments.

If all of these new needs were to be financed in the tax-exempt municipal bond market, which, by its very nature, is limited in capacity, the additional volume of financing would tend to have the effect of significantly increasing State and municipal borrowing costs, not only for these new programs but across-the-board for all State and municipal government programs. The proposed new institution would avoid these problems by operating in a far broader market. The net cost to the Federal budget, moreover, would be minimized through the use of the proposed development bank, which would issue taxable securities.

These considerations give the Federal Government and State and local governments a community of interest in finding the financing means that will be most economical for all levels of government combined. And I am confident that means can be found which will not impinge in any way on the ultimate fiscal independence of State and local governments, which now rely mainly on the tax-exempt concept.

Some implications for capital markets.—Even if the burgeoning new needs that we now envisage are financed in a much more efficient fashion than is now the case, such financing will be bound to have a major impact on capital and securities markets generally. Added to continuing large private requirements—and notably the likelihood that new housing needs will exert much greater pressures on the general capital markets than in the past—it will almost certainly mean that the average level of long term interest rates will be higher than in the 1950's and early 1960's, when they were quite low.

This is not to imply that rates will not come down from their very high recent levels. But it does raise questions as to how long we can afford to continue accepting attitudes and practices that were essentially developed in periods when average interest rates were substantially below the levels indicated for the future. It suggests that continued maintenance of the statutory 4½ percent ceiling on long term Government bonds could become an increasingly troublesome obstacle to sound Federal debt management.

Concluding comment

So there you have the short and long of it. For the shortrun, the pressure of Federal finance demand will diminish sharply, with consequently less pressure on interest rates. Over the longer run, the needs for social welfare infrastructure will place very heavy demands on the capital markets.

I welcome the lessened shortrun pressure and wish my successors well in meeting the hard financial problems of the future.

Exhibit 25.—Statement by Under Secretary for Monetary Affairs Volcker, February 19, 1969, before the Joint Economic Committee

I appreciate this opportunity to accompany Secretary Kennedy and Under Secretary Walker on our first appearance before your committee. As Under Secretary for Monetary Affairs, a good part of my own time will be devoted to the balance of payments and international finance. I understand that you plan to devote a later meeting exclusively to those matters. Consequently, my brief remarks this morning will be directed toward some problems of domestic financial policy related to my responsibilities for Treasury financing.

Virtually my first official act upon my return to the Treasury 3 weeks ago was to announce the terms by which the Treasury would refund some $14½ billion of maturing debt. By necessity, those terms included the highest rates of interest available on a Treasury note or bond since the Civil War. As it turned out, even those record rates—6.42 percent for a 15-month issue and 6.29 percent for a 7-year issue—failed to attract much enthusiasm among potential investors. More than a third of the maturing securities held by the general public had to be paid off in cash.

That experience reflects in a concrete way the strains pervading the domestic credit markets as we took office. You are, I am sure, familiar with other signs of pressure and imbalances: for example, the relative shortage and high cost of residential mortgage money, the sharp increases in interest expense for our State

and local governments, and the growing tendency of some lenders to require an element of equity participation before committing loan funds.

My purpose today is not to elaborate these facts. Rather, I would like to suggest how, in managing the Treasury's finances and debt, we might contribute toward restoring better balance in financial markets.

The main responsibility, I should make plain, must lie elsewhere—in responsible budget and fiscal policy and in appropriate monetary policy. These are the principal policy tools for restoring sustainable, noninflationary balance to the economy as a whole. This kind of balance in the economy generally is a prerequisite for any lasting reduction of tensions and interest rates in financial markets.

There are two ways in which debt management can and should play a supporting role in this effort to achieve better balance. In the first place, Treasury financing can at times provide some positive support to restrictive fiscal and credit policies by absorbing funds that might otherwise simply fuel excessive private demand. The precise means of achieving this result will always be dependent upon the particular set of economic and market circumstances prevailing at the time of a financing. It would be an oversimplification to measure the economic impact of Treasury financing entirely by the maturity of the securities sold. Nevertheless, there can be no doubt that inability to offer longer-term securities eliminates one highly important option in debt management, and thereby sharply limits its potential effectiveness as a tool of general economic policy.

The second way in which debt management can support the aims of stabilization policy is at least as significant. In the best of circumstances, the necessitous nature of Treasury financing and the potential impact of these large borrowings on credit markets create difficult problems for the conduct of monetary policy. These problems can—and should—be minimized by orderly spacing of financings, by reducing the size of maturing issues, and by use of financing techniques that avoid undue reliance on sales to the commercial banking system or exposure to market fluctuations. Again, the maturity of the securities offered is not the only consideration. But it is a relevant and important variable.

These circumstances explain why we shall ask the Congress at an early date to review the 4¼ percent interest rate ceiling on Government bonds. This has been a contentious issue in the past, and I have no desire to open that debate prematurely this morning.

I will only observe that the average maturity of the privately-held debt has shortened steadily since mid-1965, when it stood at 5 years 9 months. By the end of last month, it had declined to a postwar low of 4 years. This continuous shortening of the debt increased liquidity in the economy, and thus tended to add to the inflationary potential. And the net result has been to force the Treasury into the market for refunding in such large amounts as to immobilize monetary policy for extended periods. In 1965, for example, the average amount of privately held, marketable Treasury debt maturing each quarter was $3 billion; the average amount maturing in each quarter of this year, $5½ billion, is very substantially larger.

I would also note, in this connection, that our savings bonds—sold to millions of individuals in relatively small amounts—are subject to a 4¼ percent ceiling. The savings bonds program has been a part of the Treasury's debt management effort since before World War II. In some ways, the value of this program is greatest precisely in an inflationary period like the present. Yet, we are all conscious that these same inflationary pressures that have so profoundly permeated other sectors of the credit market have, for the time being, reduced the relative attractiveness of savings bonds. This is also a matter that we will be reviewing urgently in coming weeks.

In conclusion, I can make no promise of immediate relief from the heavy pressures on domestic financial markets, or from high Treasury interest costs. That is certainly a part of our ultimate objective. Moreover, with fiscal and monetary policy both geared to a noninflationary path, it seems to me a reasonable hope for the not-too-distant future. But to put low interest rates and better availability of money first on our list of priorities would be self-defeating. For the attempt could only add more fuel to the fire of inflation and, thus, to the distortions and strains in financial markets.

Exhibit 26.—Extract of remarks by Assistant to the Secretary, R. Duane Saunders, March 14, 1969, before the Industrial Payroll Savings Committee, on savings bonds

As a financial economist, I probably look on this program somewhat differently than many of you do.

To understand the savings bond program from a financial viewpoint requires a little different approach than you may normally encounter.

For many people the program is simply a payroll deduction and a periodic receipt of a $25, $50, or $100 bond.

Others vaguely understand that this program, somehow, helps the Government. Just how, is a mystery.

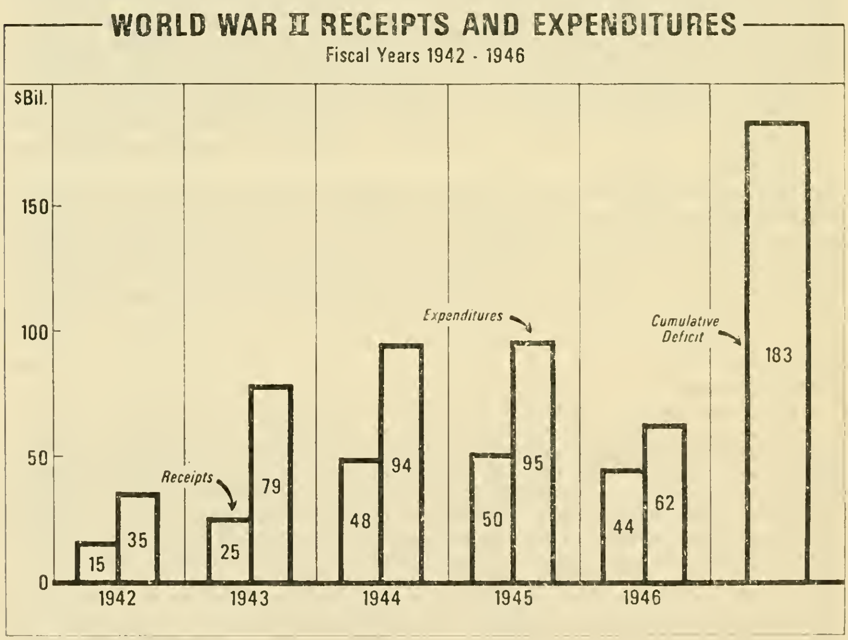
Still others remember that savings bonds were the war bonds of World War II and helped finance the national war efforts, and they recall the advertisements saying that the $18.75 purchase price of a $25 bond bought a carbine for a soldier.

These ideas are all related to the importance of savings bonds but oversimplify the real story.

Savings bonds were first actively promoted in May 1941 when the Series E bond went on sale.

The war in Europe threatened to expand into a wider conflict and our defense expenditures meant the Treasury would have to finance larger deficits.

When we were finally drawn into the War, war costs enlarged to the limits of the productive capacity of our economy. It was clear that 50 percent or more of the costs were going to have to be financed by borrowings in spite of a dramatic, large increase in taxes, and a financial plan was needed.



The first requirement was to finance war expenditures; the second part of the program was to mop up savings which otherwise might have been spent, adding to inflationary pressures.

Successive deficits in fiscal years 1942, 1943, 1944, 1945, and 1946 produced a cumulative deficit of $183 billion.

In addition, we had an increase in our cash balance during the war years of some $12 billion, meaning a total financing requirement upon the economy of about $195 billion.

Twenty-two billion dollars of this requirement was met by the Federal Reserve System in providing the monetary base. We went to the private market for the balance of $173 billion.

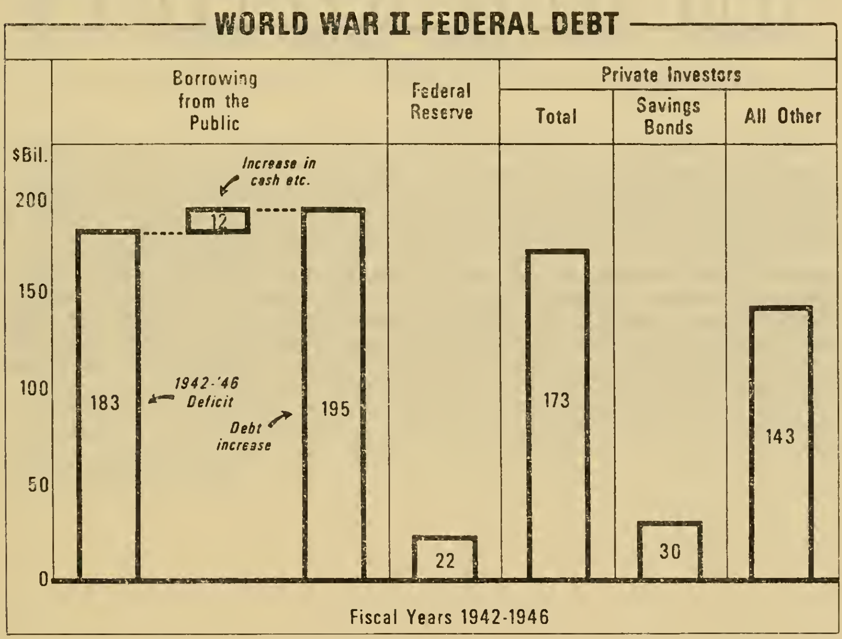
A good part of this could be raised by selling conventional securities to savings institutions, corporations, and foreign and other accounts plus individuals and corporate business.

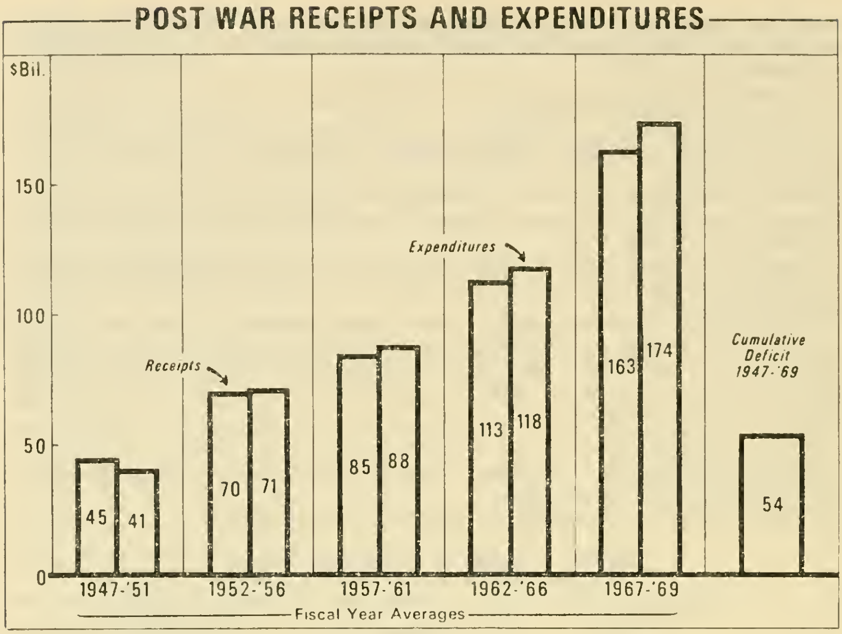
However, at the outset we faced a very serious problem since we did not have an instrument designed for the small individual saver until the Series E savings bond came into existence in May 1941. By the end of the War, savings bonds provided some $30 billion, or 17 percent, of the total of $173 billion of demands we placed on private markets.

This still meant that we had to go to the commercial banks for, roughly, $65 billion of our financing.

This is the World War II picture. Savings bonds gave us a tremendous assist by meeting 17 percent of our needs.

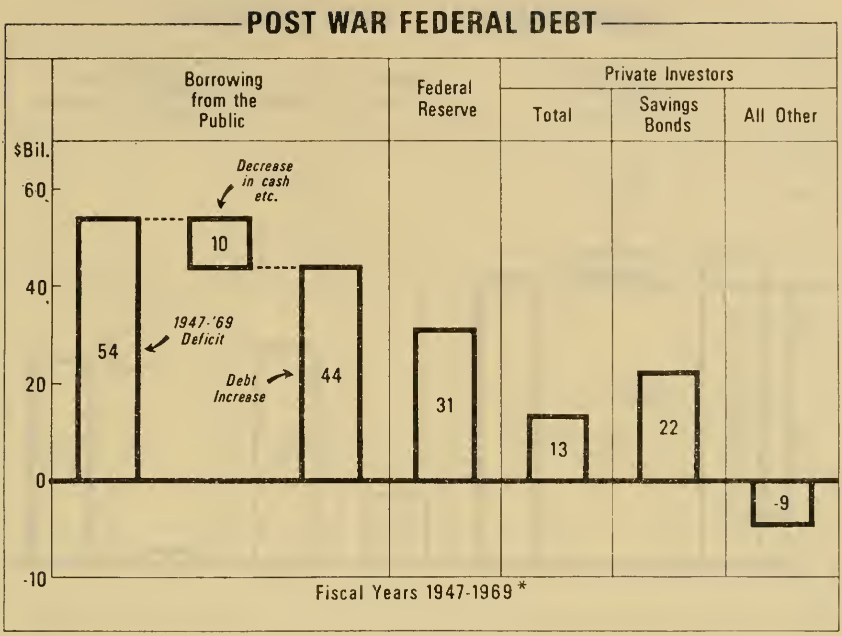
The postwar picture, basically, has not been well understood.





Most of these years, except for the first few surplus years, have been characterized by smaller deficits than during the War years. As a matter of fact, in contrast to World War II where we had to finance some 50 percent of the expenditures, in the postwar years we have had to look to the markets to finance only about 2½ percent of our expenditures through borrowing operations.

The total cumulative deficit that has had to be financed by the capital market—outside of the Government—has totaled some $54 billion. We have met this $54 billion requirement, in part, by reducing our end-of-war cash, leaving a balance of $44 billion to finance. The Federal Reserve System, in providing the credit base for the vast postwar years, acquired some $31 billion of these securities, so that our demands on the private sector, where we compete with mortgages, corporations, State and local and other demands, were $13 billion.



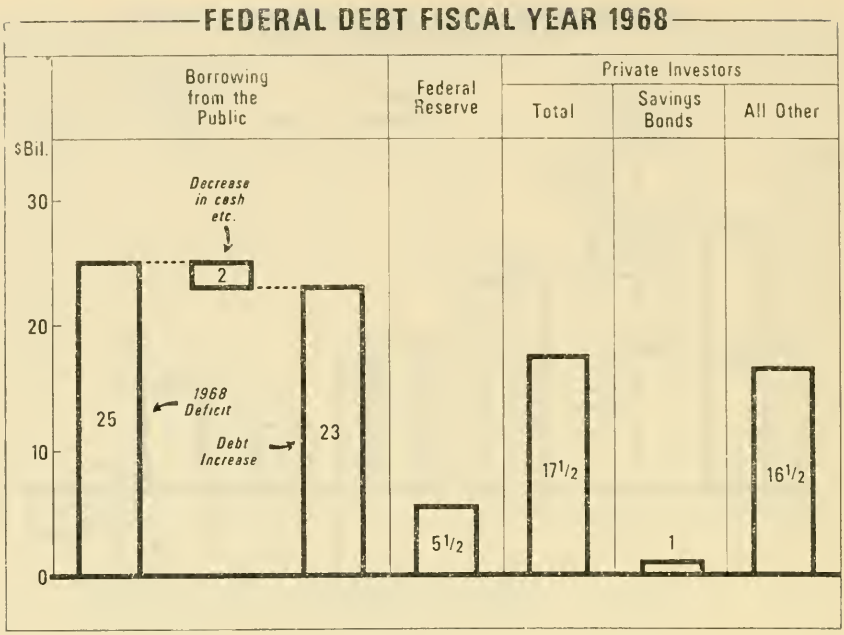
* 1969 Based on January Budget estimates

Still, even this has created problems. The Federal Government, when it runs larger deficits in periods of very rapid growth, produces strains upon capital markets and inflationary pressures, although the strains have not been anything like those of World War II.

From our standpoint as debt managers, however, the important thing has been that of this $13 billion that has had to be financed in the private sector, $22 billion of it has come from the savings bonds program. This is more than the total and has permitted us to retire some $9 billion of debt in the hands of other investors.

Nine billion dollars, of course, is made up of a lot of pluses and minuses—a decline in the holdings of savings institutions, business corporations, but most importantly, a $22 billion decline in commercial bank holdings of our securities.

To get this into a little closer perspective, let's look at what the program did in, say, fiscal year 1968.



In the fiscal year 1968, as you may recall, we had a deficit—the largest peacetime deficit in our history—of some $25 billion. We were able to drawdown our cash balances by $2 billion, but we still had to go to the capital market outside of the Government for $23 billion of debt financing.

Five and a half billion dollars was taken up by the Central Bank in carrying out its monetary function, but we still had to go to the private sector for some $17½ billion. This is a significant piece of the total of $54 billion postwar financing total.

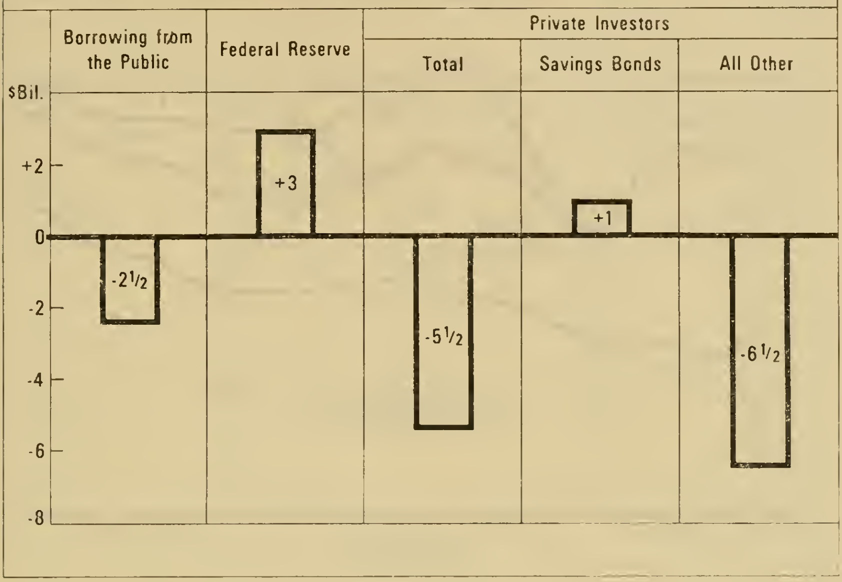
Savings bonds, because they move slowly in terms of sales growth, cannot be expected to meet problems of this nature.

As a matter of fact, savings bonds and freedom shares outstanding rose close to $1 billion, leaving some $16½ billion to be raised in private sector financing.

You have seen a part of the consequences in the vast rise—and I would call it purposely "vast" because it was vast—in interest rates in all sectors of the economy.

Now we are over the hump of that $25 billion deficit in 1968 and into the current year in which—using the budget surplus of some $2½ billion estimated in the January budget and anticipating no change in our cash balance—we will be repaying debt to the public.

FEDERAL DEBT FISCAL YEAR 1969*

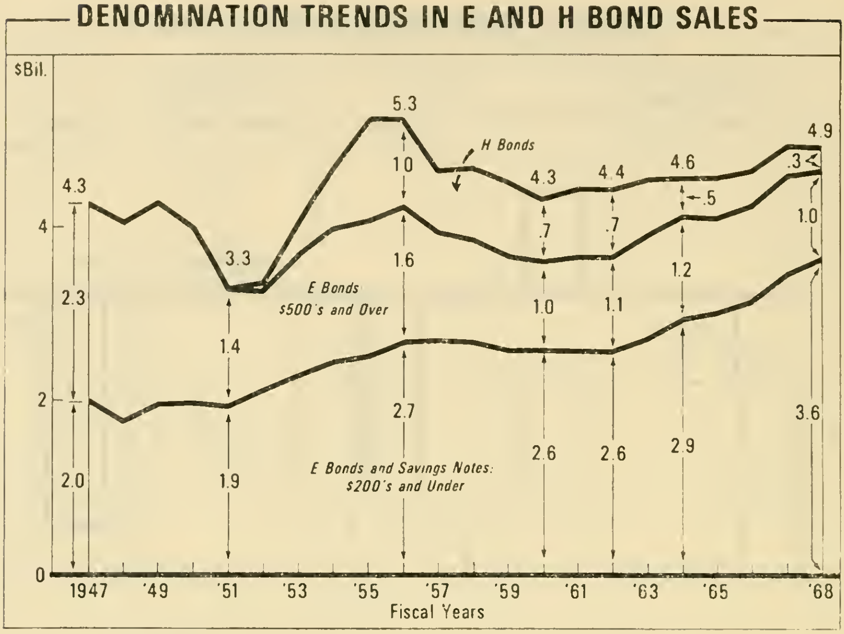


* Based on January Budget estimates and current trends in ownership

While we can't know precisely what the Federal Reserve System will take during this fiscal year, so far their increase over a year ago is $3 billion. If this continues, then we will be a net repayer of something like $5½ billion. And if savings bonds, projecting ahead again, give us perhaps $1 billion of assist, then we will be able to repay $6½ billion in marketable securities.

Thus, we can look forward during this fiscal year to a net reduction in our demands on the capital market area of $6½ billion. This should do a good bit to relieve the pressure upon capital markets, especially as we look through the balance of this fiscal year.

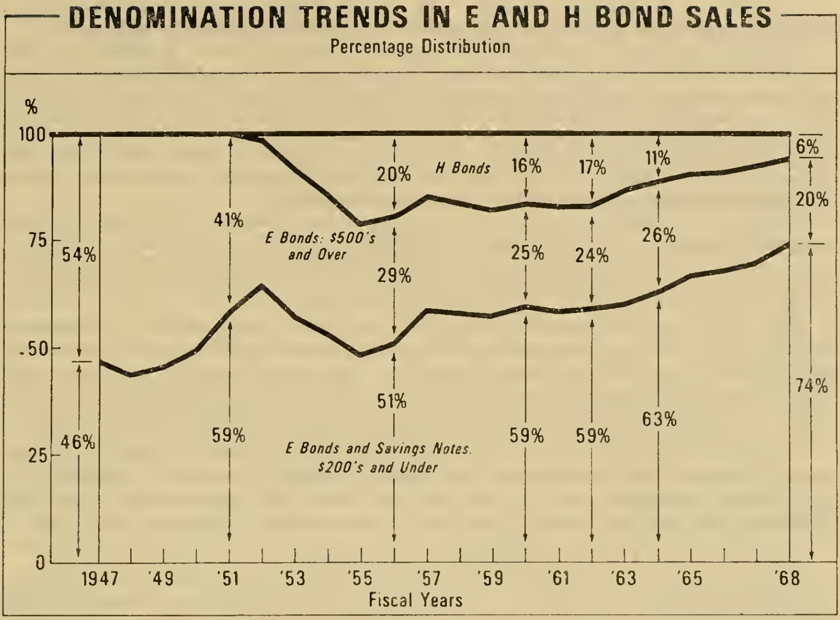
This is the kind of assist that we have seen come out of this program. It is the financing job that you have done that has given us the margin, leeway, elbow room, call it what you will, that has enabled us to keep abreast of the problem of managing a debt in an economy that, in the last few years, has been full of inflationary expectations.



I might also take the liberty to spend just a brief moment on the kind of market that you will be encountering.

Denomination trends in savings bonds sales in the postwar years have changed significantly. The growth has been in the small denomination bonds. The larger denomination bonds have gradually drifted down, and this is very marked in H bonds which initially were a good part of the market.

The H bond market, which once was about 20 percent of the total, has now declined to about 6 percent. The large denominations, which at the end of the War were providing some 50 percent of the total market, are now down to about 20 percent of the E program.



The small denomination bonds, essentially payroll savings, were about 46 percent of total market at the end of the War.

Since the time the Industrial Payroll Savings Committee was established, small denomination bonds have grown from 63 percent to 74 percent of the market.

This is the market that we see you reaching and getting for us. As we reexamine product design, about which some comments have been made earlier, we will have to keep this market in mind.

In closing, we in the Treasury Department, are aware of the fact that we are not the ones who have sold these bonds. All we have done is to provide some of the selling tools.

The sales effort has been yours, and all I, as one of the debt management team, can do is to say thank you for a job well done and we trust we can repeat the same thank you in the future.

Taxation Developments

Exhibit 27.—Message from President Nixon to the Congress, April 21, 1969, regarding tax reform

Reform of our Federal income tax system is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden.

This Administration, working with the Congress, is determined to bring equity to the Federal tax system. Our goal is to take important first steps in tax reform legislation during this session of the Congress.

The economic overheating which has brought inflation into its fourth year keeps us from moving immediately to reduce Federal tax revenues at this time. Inflation is itself a tax—a cruel and unjust tax that hits hardest those who can

least afford it. In order to "repeal" the tax of inflation, we are cutting budget spending and have requested an extension of the income tax surcharge.

Although we must maintain total Federal revenues, there is no reason why we cannot lighten the burden on those who pay too much, and increase the taxes of those who pay too little. Treasury officials will present the Administration's initial group of tax reform proposals to the Congress this week. Additional recommendations will be made later in this session. The overall program will be equitable and essentially neutral in its revenue impact. There will be no substantial gain or loss in Federal revenue, but the American taxpayer who carries more than his share of the burden will gain some relief.

Much concern has been expressed because some citizens with incomes of more than $200,000 pay no Federal income taxes. These people are neither tax dodgers nor tax cheats. Many of them pay no taxes because they make large donations to worthy causes, donations which every taxpayer is authorized by existing law to deduct from his income in figuring his tax bill.

But where we can prevent it by law, we must not permit our wealthiest citizens to be 100 percent successful at tax avoidance. Nor should the Government limit its tax reform only to apply to these relatively few extreme cases. Preferences built into the law in the past—some of which have either outlived their usefulness or were never appropriate—permit many thousands of individuals and corporate taxpayers to avoid their fair share of Federal taxation.

A number of present tax preferences will be scaled down in the Administration's proposals to be submitted this week. Utilizing the revenue gained from our present proposals, we suggest tax reductions for lower-income taxpayers. Further study will be necessary before we can propose changes in other preferences; and as these are developed we will recommend them to the Congress.

Specifically, the Administration will recommend:

—Enactment of what is in effect a "minimum income tax" for citizens with substantial incomes by setting a 50 percent limitation on the use of the principal tax preferences which are subject to change by law.

This limit on tax preferences would be a major step toward assuring that all Americans bear their fair share of the Federal tax burden.

—Enactment of a "low income allowance," which will remove more than 2,000,000 of our low income families from the Federal tax rolls and assure that persons or families in poverty pay no Federal income taxes.

This provision will also benefit students and other young people.

For example, the person who works in the summer or throughout the year and earns $1,700 in taxable income—and now pays $117 in Federal income taxes—would pay nothing.

The married couple—college students or otherwise—with an income of $2,300 and current taxes of $100 would pay nothing. A family of four would pay no tax on income below $3,500—the cut-off now is $3,000.

The "low income allowance," if enacted by the Congress, will offer genuine tax relief to the young, the elderly, the disadvantaged and the handicapped.

Our tax reform proposals would also help workers who change jobs by liberalizing deductions for moving expenses and would reduce specific preferences in a number of areas:

—taxpayers who have certain nontaxable income or other preferences would have their nonbusiness deductions reduced proportionately.

—certain mineral transactions (so-called "carved out" mineral production payments and "ABC" transactions) would be treated in a way that would stop artificial creation of net operating losses in these industries.

—exempt organizations, including private foundations, would come under much stricter surveillance.

—the rules affecting charitable deductions would be tightened—but only to screen out the unreasonable and not stop those which help legitimate charities and therefore the nation.

—the practice of using multiple subsidiaries and affiliated corporations to take undue advantage of the lower tax rate on the first $25,000 of corporate income would be curbed.

—farm losses, to be included in the "limitation on tax preferences," would be subject to certain other restrictions in order to curb abuses in this area.

I also recommend that the Congress repeal the 7 percent investment tax credit, effective today.

This subsidy to business investment no longer has priority over other pressing national needs.

In the early 60's, America's productive capacity needed prompt modernization to enable it to compete with industry abroad. Accordingly, Government gave high priority to providing tax incentives for this modernization.

Since that time, American business has invested close to $400 billion in new plant and equipment, bringing the American economy to new levels of productivity and efficiency. While a vigorous pace of capital formation will certainly continue to be needed, national priorities now require that we give attention to the need for general tax relief.

Repeal of the investment tax credit will permit relief to every taxpayer through relaxation of the surcharge earlier than I had contemplated.

The revenue effect of the repeal of the investment tax credit will begin to be significant during calendar year 1970. *Therefore, I recommend that investment tax credit repeal be accompanied by extension of the full surcharge only to January 1, 1970, with a reduction to 5 percent on January 1.* This is a reappraisal of my earlier recommendation for continuance of the surcharge until June 30, 1970, at a 10 percent rate. If economic and fiscal conditions permit, we can look forward to elimination of the remaining surtax on June 30, 1970.

I am convinced, however, that reduction of the surtax without repeal of the investment tax credit would be imprudent.

The gradual increase in Federal revenues resulting from repeal of the investment tax credit and the growth of the economy will also facilitate a start during fiscal 1971 in funding two high-priority programs to which this Administration is committed:

—Revenue sharing with State and local governments.

—Tax credits to encourage investment in poverty areas and hiring and training of the hard-core unemployed.

These proposals, now in preparation, will be transmitted to the Congress in the near future.

The tax reform measures outlined earlier in this message will be recommended to the House Ways and Means Committee by Treasury officials this week. This is a broad and necessary program for tax reform. I urge its prompt enactment.

But these measures, sweeping as they are, will not by themselves transform the U.S. tax system into one adequate to the long range future. Much of the current tax system was devised in depression and shaped further in war. Fairness calls for tax reform now; beyond that, the American people need and deserve a simplified Federal tax system, and one that is attuned to the 1970's.

We must reform our tax structure to make it more equitable and efficient; we must redirect our tax policy to make it more conducive to stable economic growth and responsive to urgent social needs.

That is a large order. Therefore, I am directing the Secretary of the Treasury to thoroughly review the entire Federal tax system and present to me recommendations for basic changes, along with a full analysis of the impact of those changes, no later than November 30, 1969.

Since taxation affects so many wallets and pocketbooks, reform proposals are bound to be controversial. In the debate to come on reform, and in the even greater debate on redirection, the nation would best be served by an avoidance of stereotyped reactions. One man's "loophole" is another man's "incentive." Tax policy should not seek to "soak" any group or give a "break" to any other—it should aim to serve the nation as a whole.

Tax dollars the Government deliberately waives should be viewed as a form of expenditure, and weighed against the priority of other expenditures. When the preference device provides more social benefit than Government collection and spending, that "incentive" should be expanded; when the preference is inefficient or subject to abuse, it should be ended.

Taxes, often bewailed as inevitable as death, actually give life to the people's purpose in having a Government: to provide protection, service and stimulus to progress.

We shall never make taxation popular, but we can make taxation fair.

RICHARD NIXON.

THE WHITE HOUSE, *April 21, 1969.*

Exhibit 28.—Statement by Secretary Kennedy, May 20, 1969, before the House Committee on Ways and Means, in support of the President's tax recommendations

It is a pleasure to be here with Dr. McCracken and Mr. Mayo in support of the President's tax recommendations.

First, to extend the income tax surcharge at the full 10-percent rate throughout 1969 and at 5 percent until mid-1970;

Second, to postpone the scheduled reductions in excise taxes on automobiles and telephone services; and

Third, to repeal the 7 percent investment credit.

The case for these proposals is compelling. More than 3 years of inflation have distorted our economy, robbed the thrifty of part of their savings, and eliminated our favorable trade balance. A continuation of the inflationary boom ultimately is likely to lead to a sharp contraction in economic activity, accompanied by a painful level of unemployment. Inflation must be stopped—and it can only be stopped by continued fiscal and monetary restraint.

Federal spending for the coming fiscal year has been cut back sharply from the levels proposed in January by the preceeding administration. Further cuts would imperil programs vital to meeting our national needs. In these circumstances, the needed budgetary surplus requires that we not permit the surcharge to expire.

An extension of the surcharge would, according to current estimates, result in Federal budget receipts of $199.2 billion in fiscal 1970. With spending reduced to $192.9 billion, the result would be a surplus of $6.3 billion. Given the size of the inflation problem, that surplus would be none too large. But failure to extend the surcharge and excises would convert the surplus to a deficit.

Mr. Chairman, I would now like to turn to Mr. Mayo, who will discuss the budget situation, and then to Dr. McCracken, who will present the economic case for the President's tax proposals. Following these statements I would like to discuss the proposed repeal of the 7-percent investment credit and to make some concluding remarks.

* * * * * * *

I would like to make a few concluding remarks. The President is committed to the removal of the surtax just as soon as economic and military conditions permit. However, it is possible at this time to recommend a halving of the surtax as of January 1, 1970.

Such a reduction in the surtax, bringing some measure of relief to all income taxpayers, would be possible only because of the proposed elimination of the 7-percent investment tax credit. The revenue lost from reduction of the surcharge would almost exactly offset the revenue gained from repeal of the credit.

Although elimination of the credit would help curtail the demand for business equipment—and thus relieve inflationary pressures—that is not the only reason for suggesting its removal. This subsidy to business investment ranks below other pressing national needs.

The revenues released by repeal of the credit can be used—beginning in fiscal year 1971—to help fund the administration's forthcoming programs, including revenue-sharing with State and local governments and tax credits to encourage investment in poverty areas and hiring and training of the hardcore unemployed.

Stated simply, the case for removal of the investment credit rests primarily upon the fact that the social needs and economic conditions of the 1970's will be greatly different from those of a decade ago. Stimulation of a sluggish rate of business investment was a high priority goal in the early 1960's. Since that time, business has invested close to $400 billion into new plant and equipment. Even without the credit, a high rate of investment is expected to continue because the fundamental incentive to invest—good prospective markets for industry's products—is likely to remain very strong over the period ahead. Instead of inducing still more business investment, additional resources will be available to meet pressing needs for housing, to aid State and local governments, and to improve the lot of the poor.

Let me conclude by discussing briefly three of the arguments that have been advanced against extension of the surcharge.

First, there are a few who argue that the degree of fiscal and monetary restraint is now too great and that extension of the surcharge risks economic overkill. The data now available, as reviewed today by Dr. McCracken, refutes this view. The slight abatement in the pace of advance, although gratifying, is surely

not sufficient to justify relaxation of our efforts at this time. What we are seeking in this legislation is not to turn the anti-inflation screw another notch, but to retain approximately the budget position we have now achieved. Indeed, as has already been pointed out, failure to extend the surcharge would significantly boost the inflationary expectations that now pervade the economy.

Second, there are those who argue that enactment of the surcharge failed to cool the economy last year and will fail again this year. Dr. McCracken has also met this argument. Our tax program must be viewed as part of a coordinated approach, and with this legislation fiscal and monetary policies will remain properly synchronized. Failure to extend the surcharge would shift too much of the burden to monetary policy, with the unhappy prospect of even higher interest rates and tighter credit conditions than now prevail.

Finally, there are those who argue that extension of the surcharge should be postponed until a comprehensive tax reform bill has been reported out of this committee.

The administration is fully committed to achieving significant tax reform at the earliest possible date. We made a substantial downpayment on this commitment by presenting to the committee, after only 3 months in office, a comprehensive set of tax reform proposals of major substantive significance. They are not simply proposals of the Treasury or of its staff. They were studied carefully in the White House. They enjoy the full support of the President.

We recognize that additional tax reform proposals are needed. Further recommendations are now being prepared by the Treasury. The initial package, however, should be a convincing demonstration of the depth and strength of this administration's commitment to far-reaching and meaningful reform.

Whatever package of tax reforms Congress enacts this year can be balanced so as to be consistent with the budget position established by the measures under consideration today. The administration reform proposal is balanced in that way.

Linking tax reform with the problem of restoring economic stability through fiscal responsibility and restraint can only jeopardize both goals.

I, therefore, urge the committee to formally act upon the President's proposals promptly to extend the surcharge and excises and to repeal the investment credit. Any protracted period of uncertainty about the fiscal plan of the Government will strengthen the inflationary expectations with which we now contend, will seriously complicate the problem of monetary management, and will undermine confidence at home and abroad in our intent and ability to maintain a stable dollar.

In acting promptly on the President's recommendation, we shall demonstrate that we can face up to our fiscal responsibilities and mount an effective program to halt inflation.

At this point, I am submitting a supplementary statement, which includes a general explanation of the provisions relating to the surcharge, investment credit repeal, and the excise taxes, and a technical explanation of those proposed tax changes, and a proposed bill. Tables are included showing: (1) the revenue consequences of the surcharge extension and investment credit repeal; and (2) the changes in tax liability for individuals and families resulting from the proposed surcharge extension for 1969 and 1970. If they could be included in the record, I would appreciate it.

* * * * * * *

GENERAL EXPLANATION

1. In general

The President's proposal would amend provisions relating to the surcharge, the investment credit, and the excise taxes on automobiles and telephone service.

The surcharge would be extended at the rate of 10 percent for 1969. Under present law the surcharge rate for 1969 is 5 percent, representing a surcharge of 10 percent for half the year from January 1, 1969, to June 30, 1969. Under the proposed extension most taxpayers will pay this surcharge through withholding rates about 10 percent above the regular rates until December 31, 1969.

The surcharge would be enacted at a rate of 2½ percent for 1970, to be paid by most taxpayers through withholding at rates 5 percent above the regular rates until June 30, 1970. This will represent a reduction in the withholding rate from 10 percent to 5 percent in January.

Under the proposal the surcharge would expire after June 30, 1970, and withholding rates would be restored to their basic levels at that time.

In addition, the investment credit would be repealed with respect to property constructed or acquired after April 20, 1969, except for property on which construction had begun or which had been contracted for by that date.

The present schedule of reductions in the excise tax rates on automobiles and on telephone service beginning January 1, 1970, would be extended for an additional year. On this basis the automobile tax would drop from 7 percent to 5 percent on January 1, 1971, and the telephone tax would drop from 10 percent to 5 percent on January 1, 1971. The other reductions now scheduled will each take place 1 year later.

This program will produce approximately the same revenue through fiscal year 1970 as would have been provided by the extension of the surcharge at 10 percent through June 1970 as proposed by the previous Administration. Since repeal of the investment credit would be permanent, the revenue after June 1970 will be substantially higher under this program than it would be under present law. The revenue details are set out in table I.

2. The proposal in detail

A. *The surcharge.*—The President's proposal contemplates continuation of present withholding rates, as recommended by the previous Administration, until December 31, 1969. The extra withholding would then be reduced in half from January 1, 1970, through June 30, 1970, when the surcharge would expire. In all other respects the surcharge would be continued as it has been in operation for the past year.

B. *Excise tax on automobiles and telephone service.*—The continuation of the excise rates on automobiles and telephones at present levels also is required by the budget situation. At the current time the demand for automobiles as well as telephone service is strong, and continuation of the present excise will not be burdensome on either industry. Under the proposal, the reductions in these excise tax rates will be deferred for 1 year.

In the case of both the surcharge and the excise extension, prompt passage is important. If the rates are permitted to lapse temporarily due to failure of the bill to be enacted before July 1, there will be difficult conditions facing employers, particularly in having to change their withholding schedules on July 1, and again when the surcharge is enacted. Moreover, if there were a time gap between July 1 and the date of enactment, either withholding would have to be set at a higher rate for the balance of 1969 or additional tax would have to be paid by employees on filing their final 1969 returns in April 1970.

C. *The investment credit.*—The terms of repeal of the investment credit should include a rule that assets acquired pursuant to a binding contract executed on or before April 20, 1969—that is, before the President's announcement—would qualify for the credit. Contracts entered into after that date would not qualify for the credit. For these purposes a contract would be considered binding if, under the applicable local law, the taxpayer is legally bound to perform. In addition, specific property on which construction began prior to April 21 would qualify for the credit.

These rules will achieve the most equitable results in that those who commenced construction of property or legally bound themselves to acquire property in reliance on the credit will receive the benefit of the credit for such property. On the other hand, those who committed themselves after the President's message on April 21, 1969, will not receive a benefit at the expense of other taxpayers. We emphasize that any change in the proposed cutoff date or transition rules could not only seriously affect the revenue impact of repeal, requiring reconsideration of the extent of the surcharge reduction, but could also discriminate unfairly between those who did and those who did not act with regard to the President's message.

The situation with respect to the present proposal for repeal of the credit differs from that involved in the temporary suspension that was enacted in 1966. In the case of the temporary suspension a special equity problem existed because construction going on during the suspension would in the future compete with projects built after the suspension that would qualify for the credit. In a repeal of the credit, future investors will not have the credit. Thus fairness requires that the law allow no credit to particular future investments unless they were acquired pursuant to contracts that were binding on April 20, 1969.

Fair provisions should also be made with respect to existing unused investment credit carryovers. Under present law taxpayers are allowed to carry

forward for 7 years any amount of investment credit in excess of the statutory limitation of $25,000 plus 50 percent of their tax liability above $25,000 for the year. By the end of 1968 taxpayers held an estimated $2 billion of such unused credits and some equitable disposition of these credits is necessary when the investment credit is repealed. It is proposed that taxpayers be allowed to carry forward and take as credits against their income tax liabilities for years ending after April 20, 1969, as much of their unexpired unused credits from prior years as they would have been able to claim in the event the investment credit had not been repealed.

Under this provision, taxpayers would compute for each year ending after April 20, 1969, a simulated tentative investment tax credit based upon the cost of all property put in service during that year that would have qualified for the credit but for repeal. This simulated credit plus the credit available for property acquired pursuant to a binding contract entered into prior to April 21, 1969, or property the construction of which was commenced before that date (both of which may be referred to as prerepeal property) would then be compared to the taxpayer's limitation on the credit ($25,000 plus 50 percent of the tax in excess of $25,000). If the total were less than the limitation, the full credit for prerepeal property would be allowed, and any unused investment credit carryover would be allowed to the extent of the difference between the limitation, reduced by the credit allowed for prerepeal property, and the simulated credit. If the total were more than the limitation, the credit for prerepeal property would be allowed on a pro rata basis, and any remaining unused credit on the prerepeal property would be added to the taxpayer's unused carryovers to be carried over to subsequent years.

Of course, if there were no credit for prerepeal property, the carryover would be allowed to the full extent of the excess of the limitation over the simulated credit.

This system provides a fair allowance for both unused credit carryovers and credits for prerepeal property. As stated, this system results in allowance of the credit for both prerepeal property and for unused carryovers to the same extent as would have been allowed if the credit had not been repealed. It is considerably fairer than the 1966 suspension period rules which first reduced the limitation by the full amount of the simulated credit, resulting in many cases of complete denial of the credit for property acquired pursuant to binding contracts entered into prior to the suspension. Our proposed simulated credit approach eliminates this inequity.

This method has the added advantage of providing an incentive to taxpayers to defer expenditures on qualified property and thus generally to strengthen the Administration's anti-inflation program. By deferring such expenditures, there will be a smaller simulated credit, and unused carryovers can be utilized to a greater extent.

In addition, the proposal contains a rule to protect property which is purchased after repeal as a replacement for property on which the credit has previously been claimed but which is destroyed by casualty or is stolen. To the extent the property is replaced, there would be no reduction of benefit from the credit through either recapture or the simulated credit.

A final topic related to the investment credit repeal is the issue of exceptions. The situation regarding repeal is different from that involved in 1966 under temporary suspension. Under a temporary suspension there was reason to allow small business to have the credit on assets acquired during the suspension period because they would be competing in the future with large companies that would get the credit on investment after the suspension. To provide permanently that small business should get the credit would introduce a discrimination that may be unwise. A decision to favor small business by some minimum credit would, for example, need to be compared with other techniques for dealing with small business, such as the additional first-year depreciation allowance in section 179 of the code; and it would have to be allowed under limitations so that it could not be enjoyed on a multiple basis by chains of corporations.

Further, continuation of an investment credit with a dollar limitation would not be an efficient way to help small business. The large bulk of small business is in the retail and wholesale trade lines where much of their investment must be in inventories and receivables. Where a small business does involve a heavy investment in assets that would be covered by the investment credit, this typically occurs early in the business life when the credit is apt to be very large relative

to the tax and is thus apt to be largely wasted. An investment credit limited in dollar amount is likely to be a far less viable assistance to new business than Government efforts to make loans available to new and small firms.

Other recommendations have been made to preserve the investment credit for particular kinds of assets, such as airplanes or railroad freight cars. This would be a very unwise decision to make in the context of the present repeal legislation. This would be a complete change in the character of the investment credit from an across-the-board encouragement to equipment investment in general to a specialized subsidy to certain investments in certain industries. The Congress should not decide to preserve a discriminatory credit for, say, airplanes without studying this as a specific problem in transportation policy. Whether an airplane investment should get a special assistance not available to other assets would need to be studied in terms of more detailed investigation of the national interest involved and the total relationship of the Federal Government to the industry. We have argued for several years that there should be additional charges on airway users for the free services Government already provides.

Further, it does not appear desirable for the Congress to provide a credit permanently for special categories of investment, such as investment in antipollution equipment, by simply excluding them from the proposed repeal. Legislation regarding such equipment should be separately considered on its own merits, and if tax credits are to be used in some degree to achieve these objectives, they should be specially designed to achieve their intended purpose without undue revenue loss. In many situations the appropriate business response may not be in new investment. It may, for example, be in the form of incurring extra costs for a desulfurized fuel. It may not be advisable to introduce a Federal subsidy for antipollution investments but not for other antipollution costs. These are matters to which the present Administration is giving careful attention at the present time.

If the Congress sees fit to modify this proposal as to repeal of the investment credit by creating exceptions or liberalizing the terms of the repeal, so as to significantly reduce the revenue expected in the fiscal year 1970, a smaller reduction of the surcharge in 1970 would be necessary.

TABLE I.—*Increase in revenue from extension of surcharge at 10 percent to Dec. 31, 1969, and at 5 percent to June 30, 1970, combined with repeal of investment credit compared with increase from extension of surcharge at 10 percent to June 30, 1970*

[In billions of dollars]

	Fiscal year 1970			Fiscal year 1971		
	Individual	Corporation	Total	Individual	Corporation	Total
A. Extend surcharge at 10 percent to Dec. 31, 1969, and at 5 percent to June 30, 1970; repeal investment credit effective Apr. 20, 1969						
Increase from extension of surcharge	5.6	2.0	7.6	0.4	0.8	1.2
Increase from repeal of investment credit	.4	1.1	1.5	.6	2.3	2.9
Total increase	6.0	3.1	9.1	1.0	3.1	4.1
B. Extend surcharge at 10 percent to June 30, 1970						
Increase from extension of surcharge	7.2	2.3	9.5	0.9	1.5	2.4
Increase (+), decrease (−), A over B	−1.2	+.8	−.4	+.1	+1.6	+1.7

TABLE II.—*Comparison of tax liabilities under proposed surcharge change* [1]

[Single individual]

Wage income	1968 tax [2]	1969 tax [3]	Change from 1968	1970 tax [4]	Change from 1969
$1,000	$16	$16	$0	$16	$0
1,900	147	147	0	147	0
2,000	166	167	1	164	−3
3,000	358	366	8	341	−25
5,000	721	738	17	688	−50
7,500	1,256	1,285	29	1,197	−88
10,000	1,873	1,916	43	1,786	−130
12,500	2,578	2,638	60	2,458	−180
15,000	3,391	3,469	78	3,233	−236
20,000	5,287	5,410	123	5,041	−369
25,000	7,506	7,680	174	7,157	−523
35,000	12,499	12,790	291	11,918	−872

[1] Tax liabilities assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liabilities from optional tax table where income is under $5,000.
[2] Includes 10 percent tax surcharge effective from Apr. 1, 1968 to Dec. 31, 1968 (i.e., 7½ percent for calendar year). Surcharge liability from tables contained in the Revenue and Expenditure Control Act of 1968.
[3] Includes 10 percent tax surcharge proposed for full year. Surcharge liability computed as 10 percent of adjusted tax, but not to exceed 20 percent of adjusted tax in excess of $145 for single returns and $290 for joint returns.
[4] Includes 5 percent surcharge proposed for one-half year, effective from Jan. 1, 1970, to June 30, 1970 (i.e., 2½ percent for calendar year). Surcharge liability from proposed surcharge tables for 1970.

NOTE.—There is no surcharge for a single person whose regular tax is less than $145.

TABLE III.—*Comparison of tax liabilities under proposed surcharge change* [1]

[Married couple, no dependents]

Wage income	1968 tax [2]	1969 tax [3]	Change from 1968	1970 tax [4]	Change from 1969
$2,000	$58	$58	$0	$58	$0
3,000	204	204	0	204	0
3,600	295	295	0	294	−1
5,000	533	543	10	512	−31
7,500	983	1,005	22	937	−68
10,000	1,443	1,476	33	1,376	−100
12,500	1,968	2,014	46	1,877	−137
15,000	2,510	2,569	58	2,393	−175
20,000	3,745	3,832	87	3,571	−261
25,000	5,156	5,276	120	4,916	−360
35,000	8,597	8,797	200	8,197	−600

[1] Tax liabilities assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liabilities from optional tax table where income is under $5,000.
[2] Includes 10 percent tax surcharge effective from Apr. 1, 1968, to Dec. 31, 1968 (i.e., 7½ percent for calendar year). Surcharge liability from tables contained in the Revenue and Expenditure Control Act of 1968.
[3] Includes 10 percent tax surcharge proposed for full year. Surcharge liability computed as 10 percent of adjusted tax, but not to exceed 20 percent of adjusted tax in excess of $145 for single returns and $290 for joint returns.
[4] Includes 5 percent surcharge proposed for one-half year, effective from Jan. 1, 1970, to June 30, 1970 (i.e., 2½ percent for calendar year). Surcharge liability from proposed surcharge tables for 1970.

NOTE.—There is no surcharge for a married couple whose regular tax is less than $290.

TABLE IV.—*Comparison of tax liabilities under proposed surcharge change* [1]

[Married couple, two dependents]

Wage income	1968 tax [2]	1969 tax [3]	Change from 1968	1970 tax [4]	Change from 1969
$3,000	$4	$4	$0	$4	$0
5,000	290	290	0	290	0
7,500	737	755	18	703	−52
10,000	1,198	1,225	27	1,142	−83
12,500	1,685	1,724	39	1,606	−118
15,000	2,217	2,268	51	2,114	−154
20,000	3,397	3,476	79	3,239	−237
25,000	4,743	4,853	110	4,522	−331
35,000	8,094	8,282	188	7,717	−565

[1] Tax liabilities assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liabilities from optional tax table where income is under $5,000.

[2] Includes 10 percent tax surcharge effective from Apr. 1, 1968, to Dec. 31, 1968 (i.e., 7½ percent for calendar year). Surcharge liability from tables contained in the Revenue and Expenditure Control Act of 1968.

[3] Includes 10 percent tax surcharge proposed for full year. Surcharge liability computed as 10 percent of adjusted tax, but not to exceed 20 percent of adjusted tax in excess of $145 for single returns and $290 for joint returns.

[4] Includes 5 percent surcharge proposed for one-half year, effective from Jan. 1, 1970, to June 30, 1970 (i.e., 2½ percent for calendar year). Surcharge liability from proposed surcharge tables for 1970.

NOTE.—There is no surcharge for a married couple whose regular tax is less than $290.

The technical explanation of the Revenue Act of 1969 is printed in the hearings before the House Committee on Ways and Means, May 20, 1969, on the President's proposal to repeal the investment tax credit and to extend the income tax surcharge and certain excise tax rates.

Exhibit 29.—Statement by Under Secretary Walker, April 22, 1969, before the House Committee on Ways and Means, on the need for tax reform

As President Nixon stated in his message to the Congress yesterday: [1]

"Reform of our Federal income tax system is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden."

The program which Assistant Secretary Cohen and his deputy, Mr. Nolan, join with me in presenting today is a highly important first step in reshaping the Federal tax system to make it fair and efficient.

As important as this step is, however, it should be recognized only as the first stage of our program. Many of our proposals are aimed directly at correcting abuses which permit wealthy people and prosperous businesses to avoid a fair share of the tax burden; these proposals have been carefully prepared and evaluated. But time has not permitted the careful study and analysis necessary before all existing preferences can be evaluated and, if appropriate, adjusted or eliminated. The proposal for a "limitation on tax preferences," which Secretary Cohen will describe to you, is a fair and effective approach to preventing abuse by the beneficiaries of such preferences. We recognize that this proposal is not the final answer—but we maintain that it is quite appropriate as an interim measure.

As our study of the income tax system got underway—and it has been assigned the highest priority—it became clear that the existing income tax structure results in a paradox for social policy. On the one hand, public policy is pledged to relieving the lot of all those American citizens who live in poverty. On the other hand, the existing system forces many of these people to pay Federal income taxes.

The "low income allowance," which we propose for adoption will assure that persons or families in poverty will not pay any Federal income taxes—in effect, more than 2,000,000 families will be removed from the tax rolls. The allowance is structured in such manner, however, that the revenue impact is relatively small.

President Nixon's recommendation for repeal of the 7-percent investment credit is also a tax reform measure. It recognizes the fact that a subsidy to business investment, however desirable in the early 1960's, no longer outranks other

[1] See exhibit 27.

important national needs. The revenue released by repeal of the credit will permit earlier tax relief to all individual taxpayers, including those in the middle- and upper-income brackets, by reducing the 10-percent surcharge to 5 percent on January 1, 1970. This represents a reappraisal of the President's earlier decision to request extension of the full 10-percent surcharge until June 31, 1970.

In addition, within a few weeks we shall request consideration of two high priority programs—which also can be funded with part of the revenues released by repeal of the investment credit—to inaugurate Federal revenue sharing with State and local governments and to provide tax credits to encourage investment in poverty areas and hiring and training of the hard-core unemployed.

The tax reform proposals which we shall discuss with you today are independent of the Administration's firm program to cool our overheated economy. It is true that repeal of the investment credit will tend to dampen demand in a sector of the economy that is moving much too fast—the market for business equipment, but it should be emphasized that in the entire set of proposals outlined by the President yesterday revenue gains and losses are essentially balanced. The approximately $4 billion in revenues gained by repeal of the credit, enactment of the limit on tax preferences, and correction of abuses, will be approximately offset by the January 1 phase down of the surcharge, the enactment of the low income allowance, and the funding of the revenue sharing and new tax credit proposals.

The lights have been burning late at the Treasury Department and the program of continued tax study and reform ordered by the President will result in much more midnight oil being consumed in the weeks and months ahead. The President has directed Secretary Kennedy to thoroughly review the entire Federal tax system and present recommendations for basic changes no later than November 30, 1969.

As the President said, that is a large order—but we are determined to do our best, not only in studying and evaluating the many preferences that we have not been able to attack directly now because of shortage of time, but also to move toward basic structural changes that go beyond reform. To sum up, in the words of the President:

"Fairness calls for tax reform now; beyond that, the American people need and deserve a simplified Federal tax system, and one that is attuned to the 1970's.

"We must reform our tax structure to make it more equitable and efficient; we must redirect our tax policy to make it more conducive to stable economic growth and responsive to urgent social needs."

Mr. Chairman and Members of the Committee, we are dedicated to those goals.

I now turn to Mr. Cohen and Mr. Nolan for their summaries of our proposals.

Exhibit 30.—Statement by Assistant Secretary Cohen, April 22, 1969, before the House Committee on Ways and Means, on the Administration's interim program of tax reform and tax relief

I join in Dr. Walker's statement, and it is my pleasure to present to you our interim program of tax reform and tax relief.

The most critical problems, which we believe should be dealt with promptly, are, first, maintaining confidence in the tax structure by curbing the excessive use of tax preferences by some wealthy taxpayers and, second, removing the burden of the income tax from those who are below the poverty level.

To deal with these two problems we recommend:

(1) A general restriction on the use of certain tax preferences through adoption of:

- (a) A Limit on Tax Preferences which would in general limit preferred income to 50 percent of total income, and
- (b) A requirement for allocating itemized deductions between taxable and preferred income.

(2) Adoption of a special "low income allowance" to exempt from Federal income tax persons whose incomes are below the poverty level. Our ability to pay for this provision depends in substantial part upon enacting the restrictions on tax preferences.

Our interim program also deals with a substantial number of other situations that involve a pressing need for tax reform or tax relief. These include:

(3) The use of mineral production payments to avoid statutory limitations on credits and deductions.

(4) The control of the tax exemption privilege of foundations and the taxation of certain unrelated income of charitable organizations.

(5) An increase in the limit on the charitable contribution deduction from 30 percent to 50 percent; a restriction on the use of the unlimited charitable contribution deduction; and structural changes to prevent undue advantage being taken of charitable deductions.

(6) The tax problems of certain corporate securities frequently associated with corporate acquisitions.

(7) The use of the special exemption provided for small corporations by large corporate groups using chains or families of corporations to enjoy multiple surtax exemptions.

(8) Various provisions dealing with the reporting of farm income which permit losses to offset ordinary income while related gains are capital gains.

(9) The payment of tax-free dividends by various companies from accelerated depreciation reserves. Related to this is the treatment of the accelerated depreciation election in the public utility regulatory process.

(10) Application of the stock dividend rules to make tax-free, corporate distributions which are substitutes for cash dividends.

(11) The deduction of long-term capital losses in full against ordinary income.

(12) The use of restricted stock plans to defer and limit income tax treatment of compensation arrangements.

(13) The achievement of income splitting through accumulation trusts, especially multiple trusts.

(14) An increase in deductible moving expenses.

(15) Relaxation and simplification of the rules affecting Subchapter S "small business" corporations.

We also recommend:

(16) Elimination of the scheduled termination of certain exemptions now accorded bank deposits owned by foreigners.

The revenue impact of our proposals are shown in tables I and II. These tables reflect our judgment that several of the tax increase provisions should be put into effect gradually because taxpayers have made important business or investment decisions in reliance on present law. The program will produce approximately balanced revenue impacts in the first 2 years. Eventually these items will produce a larger net gain. How these longer run revenue gains will be related to the total revenue picture can be decided at a later stage in our reform work. The important thing is that in view of the past reliance on these long-standing provisions, the changes have to be phased in, and unless these changes are started now the revenue will not be available in 1972 and later years to finance other tax reliefs.

TABLE I.—*Tax reform proposals*

[In millions of dollars. Estimated increase or reduction (−) in calendar year tax liabilities [1]]

	Calendar years 1969	Calendar years 1970	Long-run effect, 1975
1A. Limitation on tax preferences	20	40	80
1B. Allocation of deductions	275	500	500
2. Low income allowances	0	−665	−665
3. Mineral production payments	95	140	200
4. Foundations and exempt organizations	(2)	(2)	(2)
5. Charitable deduction changes	−10	−10	−10
6. Corporate securities	(2)	(2)	(2)
7. Multiple surtax exemptions	10	25	235
8. Farm income rules	0	10	50
9. Tax-free dividends from accelerated depreciation	0	0	80
10. Stock distributions	(2)	(2)	(2)
11. Capital loss limitation	65	80	100
12. Restricted stock plans	(2)	(2)	(2)
13. Multiple trusts	55	70	70
14. Moving expenses	−110	−100	−100
15. Subchapter S changes	(2)	(2)	(2)
Net increase (+) or reduction (−)	+400	+90	+540

[1] Based on current income levels with no provision made in long-run estimates for effect of income growth. Estimates include a 10-percent surcharge for 1969 and a 2½-percent surcharge for 1970.

[2] No basis for estimating revenue effect. In some cases, however, these measures will prevent substantial future revenue loss.

TABLE II.—*Tax reform proposals*

[In millions of dollars. Estimated increase or reduction (−) in revenues—budget basis—fiscal years]

	Fiscal years	
	1970	1971
1A. Limitation on tax preferences	25	50
1B. Allocation of deductions	325	500
2. Low income allowances	−285	−665
3. Mineral production payments	110	145
5. Charitable deduction changes	−10	−10
7. Multiple surtax exemptions	10	30
8. Farm income rules	0	10
11. Capital loss limitation	65	80
13. Multiple trusts	55	70
14. Moving expenses	−110	−100
Net increase (+) or reduction (−)	+185	+110

We believe the proposals presented today make inroads on the major tax preferences. In several of these areas we are making recommendations for permanent changes that will substantially eliminate any abuse. In the Limit on Tax Preferences (LTP) and allocation of deductions proposals, we are not taking away the preference as such. We are curbing their excessive use by any individual taxpayer. The outright elimination or reduction of any of these provisions would require careful economic judgments based on extensive data and studies. They support in some degree important segments of our business community, the financing of State and local government activities, and charitable educational institutions.

Before deciding whether any incentive should be retained in the tax law or modified, we need to compare its cost to the revenue with the benefit the public derives from its existence. These are questions on which the Treasury staff is deeply involved. We have instituted a series of meetings with representatives of the industries and other entities affected by the incentives; we are collecting data; and we will report to the Committee as soon as practicable.

These provisions have been deliberately kept in the tax law over many years, and they constitute standing invitations for taxpayers to erect new buildings, drill for oil, or embark on programs of charitable contributions. Even if we should conclude that it would be unwise to continue some of these benefits or if we should alter some of them, it would not be appropriate to remove the preference precipitously after taxpayers have embarked on programs which they might not have adopted except for these provisions. For this reason we would not be able to raise significant revenue for the next fiscal year from basic revision of these provisions to meet any appreciable part of the revenue need which can be met by the surcharge.

I now offer more detail on each of these current or interim proposals.

(1) The problem of low taxes on persons with high incomes

It offends the sense of equity of most taxpayers that some individuals with high incomes pay little or no tax. In large part this is due to a series of provisions in the tax law which are clearly tax preferences. These include:

(a) Percentage depletion on minerals and intangible drilling and exploration expenses to the extent they exceed what would be normal deductions under regular accounting rules.

(b) Deduction of the excess of accelerated depreciation over straight-line depreciation on buildings.

(c) Deduction against nonfarm income of farm losses arising from unrealistic accounting methods.

(d) Deduction of the excess of market value over basis of property contributed to charity.

Under present law taxpayers not only offset a large portion of their gross income by combinations of these preferential provisions but the advantage is accentuated because the itemized personal deductions can be offset completely against the remaining taxable income. Furthermore, this latter advantage also exists in cases where taxpayers have tax-exempt interest on State and municipal bonds and long-term capital gains (one-half of which are excluded from tax-

able income). Itemized personal deductions allocable to these income sources are also fully offset against taxable income under existing law.

We recommend the adoption for individual taxpayers of a Limit on Tax Preferences (LTP) which would place an overall limitation on the amount of specified tax preferences in any one year. We also recommend requiring the allocation of itemized deductions between income subject to tax and the tax preferences including also tax-exempt interest and the excluded portion of long term capital gains. LTP is an important and needed measure of tax reform which will insure that the tax preferences which the law provides may not be used to excess by any taxpayer. They could no longer be used to relieve those who can afford it from contributing in part to the maintenance of the Federal Government. The allocation of deductions proposal is an equally important, basic reform which will assure that certain taxpayers do not derive a double benefit from tax preferences by offsetting the entire amount of their personal deductions against taxable income only. Together, these two provisions will take us a long way toward tax fairness and equity.

A. *Limit on tax preferences.*—Under our LTP proposal a 50 percent ceiling would be imposed on that amount of an individual's total income which could enjoy a tax-preferred status. For this purpose, total LTP income would be computed by including appreciation on gifts to charity but without deducting for intangible drilling expenses, the excess of percentage over cost depletion, certain farm losses, and the excess of accelerated over straight-line depreciation on buildings. Farm losses would be included only to the extent that such losses on the cash basis of accounting exceed the amount of such losses on an accrual basis of accounting after capitalizing all capital expenditures.

In other words, an individual would be able to claim these exclusions and deductions only to the extent that his aggregate amount does not exceed one-half of his total income. Stated another way, tax preference amounts will become taxable only to the extent that they exceed income subject to tax from all other sources.

The proposal would, however, in no case reduce an individual's allowable total of tax preferences below $10,000. As a practical matter, the limitation of LTP to amounts exceeding income from taxable sources, plus this $10,000 floor, will mean that taxpayers who do not have excessive amounts of tax preference income will not be affected.

For example, assume a taxpayer had $100,000 of salary and $200,000 of tax preferences. Under existing law, he could exclude all the tax preferences, and he would be taxed on only $100,000. Under LTP, his total LTP income would be $300,000. His *allowable* preferences would be half of $300,000, or $150,000, this being the maximum amount he could exclude from his tax base. Since the amount of allowable tax preferences exceeds $10,000, the floor would not apply. He would thus be taxable on $150,000, so that $50,000 of his tax preferences would have become taxable—i.e., would have been disallowed.

Note that if his tax preference amounts had not exceeded $100,000, the amount of his taxable salary, LTP would not have any effect.

If the taxpayer's income from taxable sources were $8,000 and his tax preference amounts were $10,000, LTP would have no effect because he is entitled to a minimum of *allowable* tax preferences of $10,000.

Furthermore, our proposal provides, in effect, for a 5-year averaging provision through the mechanism of a carryover of disallowed preferences. A taxpayer who exceeds the 50 percent limitation in one year, and thus has some of his tax preferences disallowed and included in taxable income, will be able to take advantage of this carryover provision if, in the next five years, the amount of tax preferences claimed falls below the 50 percent level. This averaging feature of our proposal is an important one since it assures that the limit on tax preferences affects primarily those who, year after year, take undue advantage of these preferences.

A 3-year transition period is provided whereby the maximum limit on tax preferences will become effective gradually so that investment decisions and planning can be made on the basis of these new provisions. In 1969, a taxpayer would be able to claim preferences equal to 70 percent of his total income; and this percentage would be reduced to 60 percent in 1970 and finally to 50 percent in 1971. Thus, in 1971 and thereafter no individual could claim more than one-half of his total income as tax-preferred items.

Tax-exempt interest has not been included in the list of tax preferences for LTP purposes because we have been advised by the Department of Justice that there is doubt whether such inclusion would be constitutional.

Capital gain income has not been included as an item of tax preference for LTP. Those taxpayers who do not use the alternative tax of 25 percent on capital gain pay tax on one-half of their income from capital gains at their regular rate. This is in accord with the intent of the LTP proposal. In order to preclude capital gains from further sheltering income, long term capital gains would not be counted in computing the amount of total income in calculating the 50 percent limit on tax preferences. Thus, if a taxpayer has net business income of $100,000, which reflects an excess of accelerated over straight-line depreciation on real estate of $200,000, and long term capital gains of $80,000, his limit on tax preferences would be $150,000 (one-half of $300,000) and his adjusted gross income would be $190,000.

On the other hand, those taxpayers who use the alternative rate in effect exclude more than one-half of their capital gains. We are not prepared at present to recommend that the exclusion of such gains be subject to the 50 percent overall limit on tax preferences. The effect would be to raise the alternative tax in some cases above 25 percent to as much as half of the taxpayer's top rate. This could have a serious economic impact, the ramifications of which would have to be thoroughly considered as a part of a review of capital gains taxation generally.

This proposal has some similarity to the "minimum income tax." The "minimum income tax" as proposed in the *Treasury Studies* was broadly designed to have the effect of limiting certain exclusions to 50 percent of a revised adjusted gross income (AGI). It did so, however, in a way that required a special alternative tax base. This separate tax base would itself be a source of complexity. More importantly, the separate base made it so difficult to deal with matters of timing that items such as accelerated depreciation and intangible drilling expenses were left out of the minimum tax proposal. These as well as certain farm losses are covered by LTP. Further, we believe LTP is preferable to the minimum tax in that it achieves an averaging effect, as previously explained, so that it operates only against those taxpayers who consistently achieve an imbalance of tax preferences in relation to taxable income.

B. *Allocation of deductions proposal.*—We also recommend that an allocation of deductions be required whereby an individual with more than $10,000 of tax preference income would be required to allocate his itemized deductions (other than business expenses) proportionately between his taxable income and his excluded income. The latter portion would not be allowed as a deduction.

The items of tax preference to which itemized deductions would be allocated and thus disallowed would be the same four items of tax preference which are included in LTP, but with the addition of the excluded one-half of capital gains and tax-exempt interest.

Tax-exempt interest is included as an item of tax preference in the allocation proposal because it is reasonable to assume that such nontaxable income is used along with taxable income to finance nonbusiness deductions. There is no constitutional problem because the proposal is in no sense a tax on such interest; it is merely a disallowance of a portion of itemized deductions. Precedent for such allocation with respect to tax-exempt interest exists in present provisions of the Internal Revenue Code.

It is also appropriate to allocate deductions to the one-half of capital gains that is excluded from the tax base since it can fairly be assumed that expenses which are incurred in a particular year in which capital gain is also realized are financed in part from such excluded income. The effect of this allocation of deductions proposal on capital gains is the same as would be achieved by subtracting from long term capital gains the allocable amount of the nonbusiness deductions before calculating the 50 percent of long term capital gains that is included in ordinary income.

Itemized deductions will be allocated to items of tax preference only to the extent that, under the Limit on Tax Preferences proposal, such preference amounts are not required to be added back to income under that proposal. The amounts so added back to income will be treated the same as other taxable amounts in the allocation fraction, and deductions allocable to this total taxable amount will be allowable.

An exemption of $10,000 would be granted so that individuals with $10,000 or less of tax-preferred income (including the excluded half of long term capital gains) would not have to allocate their deductions. This threshold will relieve

the vast majority of taxpayers from having to make the allocation calculation and will assure that only cases of significant tax reduction are affected. However, for those taxpayers with substantial amounts of tax preferences who are required to allocate their nonbusiness deductions, the calculation will be a relatively simple one that lends itself to the existing tax return forms quite easily.

The LTP proposal in the first year, 1969 (fiscal year 1970 receipts), will increase revenues by $20 million. In the second year the increase will be $40 million, and in the third year with LTP in full effect at the 50 percent rate the increase will be $80 million.

The allocation proposal when fully in effect in 1970 will raise revenue of $500 million. In the first year, 1969, allocation would be required for only one-half of itemized deductions, with a revenue effect of $275 million, after allowing for the 10 percent surcharge.

We are not now recommending that LTP and allocation be applied to corporations. A major difference is that in the corporate area the characteristic problem is not an unintended combination of tax preferences but simply intensive use usually of a particular preference which the Congress deliberately legislated as an incentive measure for certain kinds of business. Whether this should be changed necessarily involves a basic reconsideration of the specific preference and the economic effects of its removal or limitation in that industry. This is a project that we are engaged in as part of our present tax reform studies. At the present time, for example, LTP and allocation would have quixotic effect on corporations incurring intangible drilling costs. It might have more serious effects on companies with a single business than on conglomerate-type companies. LTP and allocation serve their purpose well in the case of individuals using preferences in combination to excess, but their application to corporations requires further careful consideration.

This is a proper point to comment on the publicity concerning the 155 returns filed in 1967 with adjusted gross incomes over $200,000 on which no Federal income taxes were paid. Our LTP and allocation of deductions proposals, along with our restriction on use of the unlimited charitable contribution, will result in payment of tax in a great many of these cases. We are taking administrative steps to identify clearly the causes of non-payment in these cases generally.

As a first step, Treasury cooperated with the staff of the Joint Committee on Internal Revenue Taxation in preparing brief statistical analyses of each of the 154 nontaxable individuals reporting adjusted gross income of $200,000 or more in 1966, indicating sources of income and losses and major itemized deductions. This study is being made available to this Committee. I am including at the end of this testimony some summary data on these cases.

Of the $112.1 million of adjusted gross income (AGI) reported on the 154 returns, $78.6 million (or 70 percent) was given to charity and deducted, indicating (since the normal limit on charitable contributions is 30 percent) that a substantial number of these persons qualified for the unlimited charitable contribution permitted by law. Interest paid deductions amounted to $27.8 million (or 25 percent of AGI). The deduction for State and local taxes paid totaled $8.7 million (or 7.8 percent of AGI).

There are limitations, however, to this type of analysis. For example, data available on individual tax returns do not generally include tax-exempt interest on State or local bonds. Nor is full information available as to the nature of income or losses derived from partnerships, Subchapter S corporations, etc. Thus, the tax return is not now a complete indicator of taxpaying capacity. Moreover, more startling cases are frequently found among taxpayers who do pay a relatively small amount of tax than among those who pay none. To develop meaningful data not only as to taxpayers with high adjusted gross income and no tax but also on taxpayers with high real income not reflected in "adjusted gross income," we are taking a number of administrative steps. Thus,

1. A substantial number of 1968 returns recently filed showing large income but low tax are being duplicated and brought to the National Office promptly for analysis.

2. We are designing an additional schedule for the 1969 return to show a revised gross income amount which will include various tax preferences as a basis for analysis and statistical work.

3. A research study is being conducted to bring together data for a representative sample of taxpayers for three consecutive years to determine the degree of recurrence in returns of particular taxpayers of certain items of income and deduction, such as capital gains, investment losses, farm losses, and other items.

We will make available to this committee and to the Congress additional data developed and the results of our studies as quickly as they become available. These actions will provide information which will be a sound base for further legislation and administrative action.

As I have noted, the problem is not solely wealthy persons who pay no tax, but also the wealthy who pay comparatively little in relation to their income. Among taxpayers with adjusted gross income of $1 million or more, about 650 of the more than 1,000 with that income—about 65 percent—pay a tax of less than 30 percent of their income (including the full amount of capital gains). Among taxpayers with income between $500,000 to $1,000,000, there are about 1,300—about 55 percent—who pay tax less than 30 percent of their income. And among taxpayers in the $100,000 to $500,000 range 30 percent, or about 25,000 persons, pay less than 30 percent of their income in tax. Our LTP and allocation proposals would serve to reduce these disparities in tax burdens.

(2) Low income relief

First priority for reducing the present burdens of Federal income tax should be given to removing the tax on people in poverty. This should be done in such a way as to involve minimum tax reduction for people at above poverty incomes.

We recommend that an additional deduction for a low-income allowance be extended to certain low-income taxpayers who use the minimum standard deduction. This deduction would be designed so that persons whose income is below the poverty level would be free of Federal income tax. The combination of the low-income allowance and the minimum standard deduction would total $1,100, to which would be added the personal exemption of $600 per person.

Table III provides more detail on the operation of this provision. It will be seen that for a single taxpayer the proposal would make income tax free up to $1,700, which is substantially equal to the estimated poverty level income of $1,735. A family of four would pay no tax on income up to $3,500.

The low-income allowance would be decreased by $1 for each $2 by which the taxpayer's adjusted gross income exceeded the maximum nontaxable amount (including the personal exemption). Thus the low-income allowance will phase out as income increases above the maximum non-taxable amount. For the single person the added relief would decline at income levels above $1,700 and disappear at $3,300 of income. For the family of four it would phase out between $3,500 and $4,500.

All of this would be built into the optional tax table, which is the only way that low-income taxpayers can use the standard or minimum standard deduction. Thus the provision would not require any additional computation on the taxpayer's part. He simply would read his tax from the table, as he does now.

The extra provision would provide maximum tax relief of $117 for a single person, the tax now payable on a $1,700 income. In aggregate it would affect about 13 million taxpayers, providing an average tax saving of about $51. It would relieve of all tax about 5 million families who now pay tax on below poverty level incomes.

It is recommended that the optional tax tables be extended from the present ceiling of $5,000 to an income of $6,100, so that this provision would operate entirely on the optional tax tables.

TABLE III.—*Low-income relief proposal*

Number in family (Col. 1)	Poverty level [1] (Col. 2)	Present level at which tax starts (Col. 3)	New level at which tax starts (Col. 4)	Level at which benefit disappears (Col. 5)	Present tax on income in col. 4 (Col. 6)
1	$1,735	$900	$1,700	$3,300	$117
2	2,240	1,600	2,300	3,700	100
3	2,755	2,300	2,900	4,100	86
4	3,535	3,000	3,500	4,500	74
5	4,165	3,700	4,100	4,900	60
6	4,675	4,400	4,700	5,300	46
7	5,180	5,100	5,300	5,700	28
8	5,785	5,800	5,900	6,100	14

[1] The 1969 poverty levels are assumed to be 6 percent above the HEW nonfarm level for 1966.

CHART 1

PROPOSED LOW-INCOME TAX RELIEF: MAXIMUM TAX-FREE INCOMES

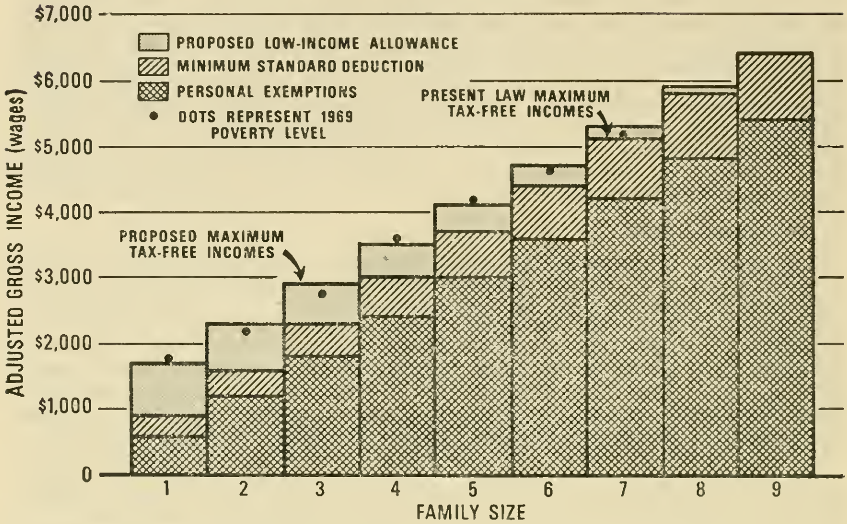
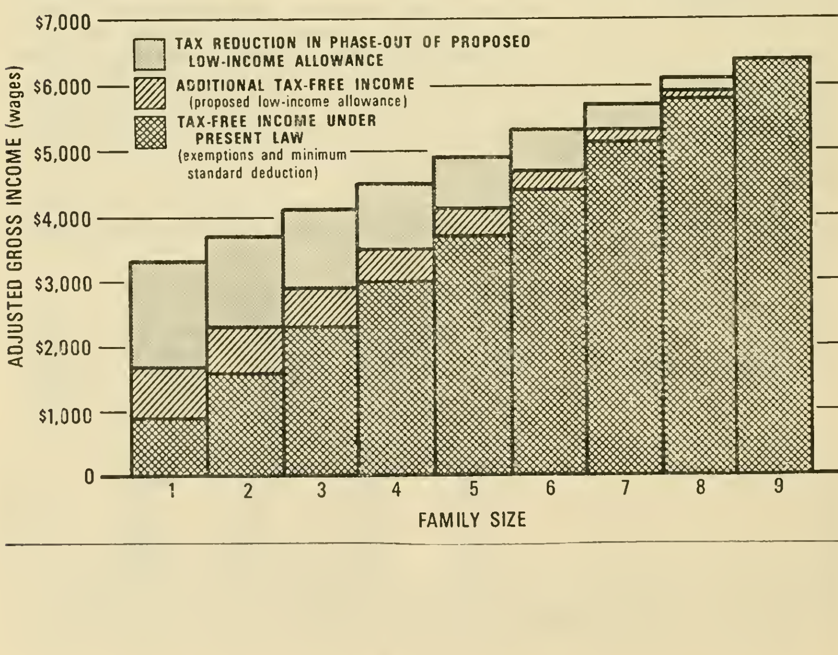


CHART 2

PROPOSED LOW-INCOME TAX RELIEF: INCOME RANGE OF PHASE-OUT OF BENEFITS



(3) Mineral production payments

The sale of production payments in the extractive industries results in acceleration of depletable income, a failure to match operating expenses with operating income, and a distortion of the Federal income tax results intended by Congress. This distortion permits the avoidance of limitations Congress has placed on the depletion allowance, the foreign tax credit, the investment credit, and the net operating loss deduction. Among other effects, it may also result in creation of artificial net operating losses in subsequent years which may be carried back to earlier years for purposes of obtaining income tax refunds. The net result may be that over a period of years, a corporation may pay no income taxes on its mineral operations, even though it has reported a profit to shareholders each year.

The production payment has also been used in so-called ABC transactions to distort the normal operation of the Federal income tax provisions by creating an unwarranted exclusion of income of the owner of the property, or as others see it, a distortion of the deduction of "lifting" or operating costs of the mineral property.

Originally confined largely to oil and gas transactions, the sale of mineral production payments has spread in recent years to other extractive industries and is resulting in significant reductions in tax liabilities.

The Treasury recommends that these production payments be treated as loan transactions, both with respect to carved-out production payments and ABC transactions. This treatment would not apply to production payments pledged for exploration or development.

The tax reform proposals of the previous Administration recommended that this change be made with respect to transactions entered into after the date of enactment. We believe that the distortions of income tax liability involved in these transactions, and increasing utilization in various extractive industries, indicate that these distortions should be terminated promptly. Otherwise there will be an acceleration of such transactions prior to the enactment of the legislation. We recommend, therefore, that this provision be enacted as promptly as possible and be effective with respect to transactions consummated, or covered by a binding contract entered into, on or after April 22, 1969. The industries involved have had adequate notice that the tax treatment of production payments was under reconsideration (see, for example, IRS Technical Information Release 999, Oct. 28, 1968).

This provision will produce an annual revenue gain of $200 million in the long run, and $95 million in the first year of operation.

(4) Private foundations and exempt organizations

A major area requiring immediate congressional attention is the treatment of private foundations. We are convinced that these instruments for receiving and investing wealth are a useful source of flexibility in achieving new levels of thought and action and in supporting the most effective existing operating charities. They enrich the pluralism of our social order. The very fact, however, that a major direct responsibility of private foundations is wealth and its management imposes a special responsibility on the tax system, which was partly responsible for the existence of the foundation. This responsibility is to see to it that the wealth is managed with scrupulous regard for its charitable charge.

In many ways, however, the clear intent of present law to require devotion of the property of foundations to charitable purposes is not achievable under existing statutory standards. We offer the following proposals to help achieve this purpose and to improve the system of taxing exempt organizations in general.

1. Eliminate "self-dealing" through a general prohibition against financial transactions between a foundation and its founders, contributors, officers, directors or trustees.

2. Require that all of the net income of a foundation be distributed to charity on a relatively current basis. Moreover, the foundation would be required to distribute amounts equal to 5 percent of the value of its investment assets if this amount is larger than realized income. This rule will insure current charitable benefits commensurate with the tax advantages granted to foundations and their donors.

3. Require that foundations sell or contribute to a publicly supported charity enough of their interests in particular businesses controlled by the foundation

or the donor to bring the remaining interest below the control limits that would be set out in law. Foundations would have five years from the present time with respect to existing holdings, and five years from the time of receipt of such a controlling interest as a result of a gift or bequest in the future, to make this disposition. The five-year period would be subject to extension for good cause shown. A controlling interest would be defined as 35 percent of the combined voting power of a corporation (or interest in an unincorporated business), except that holdings between 20 percent and 35 percent could be considered controlling, if control is in fact found to exist.

4. Prohibit private foundations from engaging in activities which directly affect political campaigns, such as voter registration drives.

5. Require private foundations which make direct grants to individuals for educational and other programs to make public the terms of the grants and resultant work product of recipients of these grants.

6. Provide effective sanctions with respect to private foundations. Disallowance of the exempt status of an organization upon audit of its return after disqualifying transactions have occurred is frequently an inadequate penalty. It often penalizes charity while imposing no detriment upon the private individuals responsible for its disqualifying acts. Also it is an inflexible provision, imposing light or heavy penalties regardless of the seriousness of the prohibited activity.

In order to impose appropriate sanctions for violations of the new requirements of private foundations, we propose a specific set of civil penalties against foundation management, against private persons who improperly deal with foundations and, in some cases, against the foundation itself. In addition, we propose that the Federal District Courts be given jurisdiction to enforce the obligation of a federally tax-exempt organization to devote funds properly to charitable purposes. Thus, the Internal Revenue Service will be authorized to forward to the Department of Justice a recommendation for such action if other remedies are inadequate. Action in the Federal courts seeking equity relief would be deferred during the time the State Attorney General seeks appropriate relief under State law to correct the abuse. This system should serve to bolster the efforts of State Attorneys General to protect the public interest, efforts which now vary widely from State to State.

7. Extend the provisions for taxation of "unrelated business income" to churches and other exempt organizations not now subject to those provisions. Taxation of the churches to the extent that they enter into the commercial transactions of the market place in direct competition with taxpaying businesses is consistent with the protection of the tax exemption of churches with respect to their passive investment income and the income related to their primary activities.

8. Enact pending legislation to overcome the effect of the Supreme Court decision in the *Clay Brown* case to prevent a charitable organization from borrowing to purchase investment assets. The effect of such transactions is often to pass the benefit of the tax exemption on to the seller, a nonexempt party, in the form of an artificially high price. There is no warrant in any event for a tax-exempt organization borrowing money to purchase income producing assets unrelated to its charitable function.

9. Tax as unrelated business income the investment income of social clubs and beneficiary societies. When this income is used to pay for services to members, it should be regarded as taxable to the same extent as if it were earned by the members directly and used to pay for their social recreation. The unrelated income provision should not, however, apply to the investment income associated with fraternal insurance.

In addition, I would like to indicate that we consider that the provisions of the tax law with regard to exempt organizations need to be given thorough study. We plan to reexamine both the criteria by which exemption is granted and the requirements for continued tax-exempt status. In addition to the difficulties inherent in vague statutory standards, such as "charitable" or "educational," the present justification for exemption of business-oriented organizations will be explored. Further attention needs to be given to the problem of the consequences of loss of exemption. In many situations, it can be to the advantage of an exempt organization to surrender exempt status. After a taxpayer has obtained a benefit for a contribution to a charitable organization, there is frequently no effective penalty imposed on anyone from the subsequent denial of exemption and no effective control at the Federal level once exemption has been lost.

We have reviewed with Commissioner Thrower the creation of an advisory group on exempt organizations, made up of persons of stature and diverse backgrounds. The group would advise with the Commissioner regarding major policy issues concerning the appropriate activities and methods of operation of exempt organizations. Such a group, we understand, will soon be appointed.

We would like to assure this committee that the Internal Revenue Service will bend every effort to supervise the exempt organization area as effectively and efficiently as possible within the confines of the statute. Over the past several years the Service has brought the benefits of automatic data processing to the exempt organization field. An Exempt Organization Master File has been assembled containing at the present time 450,000 organizations. The master file provides invaluable aid in auditing and developing meaningful statistics reflecting the nature of the exempt organization world. Furthermore, exempt organization information returns are now all filed in one Service Center.

Several years ago the Service made a policy decision to achieve the same level of audit coverage for exempt organizations that it achieves in connection with other returns. Since 1964 the Service has completed 65,000 examinations of exempt organizations. Each of these audits represents 14 returns actually screened. During this period 1,180 revocations were recommended and total tax change aggregated $134.3 million.

Further, the structure of the Exempt Organization Branch, a specialized unit within the National Office, has been significantly improved, and published ruling activity was increased substantially. Thus 168 rulings in this area were published in 1968 as compared to 18 in the years 1961–63. Other improvements in the handling of these cases were made.

Notwithstanding the significant improvements in the administration of exempt organizations, a major further step will soon be undertaken. A centralized unit in the National Office will select the large tax-exempt organizations to be audited and will assist in planning and executing the audits themselves. The unit will also provide a quality check on the audit of smaller exempt organizations in the field by review of completed reports. This program should produce greater uniformity of treatment, and make the experience gained thereby readily available for changes in legislation, regulations and rulings policy.

(5) Charitable contribution deductions

The vital role that charitable organizations fulfill in our society is recognized by the charitable contributions deduction—a very strong incentive for charitable giving. We are recommending certain structural improvements in the deduction, but we feel it is appropriate to couple these reforms with an increase in the limitation on the charitable contribution deduction from 30 percent to 50 percent. This will increase the incentive effect of the deduction without permitting any taxpayer to avoid tax on a fair share of his income. The increased limitation for the charitable gifts is justified, however, only if these other reforms are enacted.

With respect to the unlimited charitable contribution deduction, which is available only to persons who make very large contributions over a series of years, we believe that some limitation is in order. We recognize that persons who make a significant long-run commitment of a very large part of their income to a charity make a contribution to the charitable activities that would be difficult to replace. At the same time, every taxpayer should be required to make some significant payment to the maintenance of the Federal Government as opposed to distributing all his income to charity. To balance these considerations, we propose that a taxpayer meeting the present requirements as to the unlimited deduction be permitted to deduct contributions only to the extent that his contributions, plus his other itemized personal deductions, do not exceed 80 percent of his adjusted gross income. This provision applies to taxable years beginning in 1969.

Under the present law deductions for contributions to charity may be in the form of cash or property, taken at its fair market value. Except with respect to donations of installment obligations, gain is not recognized to the donor on the making of a charitable gift in property. The charitable contribution deduction is reduced in the case of gifts of certain depreciable and mineral properties which would, if sold, result in ordinary income. However, there are still a number of major areas in which gifts of property to charity produce unwarranted tax benefits to the donor beyond the intended incentive effect of the deduction. It is

important that the benefit of the deduction operate uniformly between taxpayers who substantively have the same income and make the same contribution to charity. The following changes are designed to accomplish this purpose.

In 1958 the Advisory Group on Subchapter C recommended to this Committee that any deduction for charitable contribution of Section 306 stock be reduced by the amount of ordinary income that would have been realized on its sale to a third party. We believe that this recommendation should be adopted by the Congress and that the principle should be extended to charitable donations of all property which, if sold, would produce ordinary income to the seller. The benefits to the charitable organization from the present rule are not commensurate with the loss to the Treasury from the elimination of ordinary income tax on the profit.

We recommend that the statute be amended to insure that no deduction be allowed for the rental value of property leased rent-free to a charity. The donor in such a case has no income from the rental value and should not get a double benefit in the form of a charitable contribution deduction, any more than a person donating his services to charity.

We recommend that the special 2-year charitable trust rule be repealed. This rule permits a taxpayer to avoid the percentage limitations on the charitable contribution deduction. The repeal will mean that in all cases a grantor will be taxed on trust income where a reversionary interest will or may be expected to take effect within ten years. He will, of course, get a charitable contribution deduction for the value of the income interest going to charity.

Under existing law in cases where the income interest goes to charity and the remainder goes to noncharitable beneficiaries, such as the donor's family, the donor is not taxed on the income if he has no reversionary interest (or if any reversion is postponed for more than 10 years). He also is entitled to a charitable contribution deduction for the value of the income interest going to charity. We recommend that this double benefit be ended by allowing the deduction only if the grantor includes the income in his gross income.

Further, we recommend that no deduction be allowed for a gift to charity of stock rights unless the shareholder allocates the basis of his stock in part to the distributed rights. Under existing law, a taxpayer can purchase stock carrying stock rights, contribute the rights to charity and deduct their value, allocate none of his cost to the rights, and then take a loss on sale of the stock which, of course, will have less value without the rights. Our proposal would end this double deduction.

With respect to donations of property which, if sold by the donor, would produce long term capital gain to the donor, we are not now prepared to recommend that the deduction be reduced by the amount of the untaxed gain. We do recommend, however, that the gain on capital assets so transferred be included with other items that in the aggregate are subject to the limit on tax preferences (LTP).

(6) Corporate securities

In recent years there has been a rapid increase in the number and the size of mergers or other consolidations among corporations, particularly in the area of so-called "conglomerate" combinations. The Congress must regard this development with great concern for it constitutes a threat to the competitive climate for U.S. business and to growth opportunities for new firms. The total congressional concern should be reflected in a number of areas, including possible extension of the antitrust laws, revision of security regulation and accounting rules, and regulation of bank loans to the extent that present loan limitations facilitate new consolidations. It is also appropriate to investigate the question whether the present tax laws offer special inducements to combinations.

From the evidence presented to this committee, and from data acquired by the Treasury, it is apparent that the basic tax provision encouraging the merger movement is that which accords tax-free treatment to reorganizations. Over 90 percent of the mergers in recent years have employed some form of tax-free reorganization. The Treasury is beginning an immediate study of the application of the reorganization provisions to see if the rules developed some years ago are still appropriate to current conditions and practices.

Present concern is also expressed about transactions in which debt is a significant element of the acquisition price. Tax policy should focus on the appropriateness of the interest deduction with respect to the issued debt. It appears, however,

that the greatly increased use of debt in recent acquisitions is motivated primarily by factors other than the desire to obtain an interest deduction for tax purposes. Thus, testimony before this committee and information obtained by the Treasury indicates that the greatly expanded use of debt is occassioned by the desire to hedge against inflation, to obtain "leverage" to obtain a more favorable earnings per share ratio, to enable sellers of stock to acquire a prior claim on earnings and assets, and to obtain price stability in the package offer that is made for the stock of the target corporation.

In our tax structure, an interest deduction is properly disallowed only if the underlying obligation constitutes equity rather than debt. We consider that the first section of H.R. 7489 does not address itself to this basic question. The Treasury is presently seeking to develop rules or a regulation that will aid in distinguishing debt from equity and disallow the interest deduction where the interest payments represent in substance a return on equity. These rules would apply whether the instrument comes into existence in an acquisition, in a recapitalization, or in any other manner, and whether the company is closely held or publicly held. Special attention will be given to securities such as subordinated debentures and convertible debentures. Accounting for acquisitions as a "pooling of interest" rather than as a purchase may suggest equity treatment. Convertible debentures that are noncallable for long periods may truly evidence an equity position rather than a creditor status. Other factors which may be significant in the conglomerate area will also be considered. Any new regulations promulgated in this area would, however, have prospective application only.

In addition, we propose that the following immediate steps be taken by legislative action. These steps will impede mergers and acquisitions in which debt securities are used to gain tax advantages, and they are based on sound tax policy.

(1) The Treasury supports adoption of a rule which would deny installment sale treatment under Section 453 for indebtedness issued in registered form or with interest coupons attached. The reason for this change is self-evident: such instruments, freely traded on the market, do not justify tax deferral.

(2) To achieve consistency of treatment between bondholders and the issuing company where bonds are issued at a discount, we recommend that Section 1232 be amended to require that original issue discount be treated as additional interest income to the bondholders to be reported ratably over the life of the bonds. This rule would not apply to bonds issued by any government or political subdivision. This rule will decrease what we regard as a serious potential area for revenue loss on the issuance of debentures with warrants attached. The bonds are treated as issued at a discount if the warrants have value; the issuer claims a deduction annually for amortization of the discount element; and the holders obtain deferral of substantial amounts of ordinary income. There may be doubt whether this discount income is ultimately being reported as ordinary income on redemption or sale of the bonds. Thus, under the present structure of Section 1232, the income is not characterized as interest income, cannot be made subject to information reporting to the bondholders and the Internal Revenue Service, and is not subject to tax for what may be a long period of time until the bond is sold or redeemed.

(3) The Treasury recommends that Section 163 of the Internal Revenue Code be amended to exclude from the deduction allowable to a corporation on repurchase of its convertible bonds at a premium the amount attributable to the conversion feature of the bonds. Present regulations reach this result, but court cases have been filed to test them. Any doubt in this area should be eliminated by legislation.

Other measures are being taken in regulations or rulings to insure proper, consistent tax treatment with respect to debt securities. While the legislative measures recommended by the Treasury at this time and these other actions are not specifically directed at acquisitions, whether of a conglomerate nature or otherwise, we believe that they will attack some of the basic tax problems involved in combinations and decrease the impetus toward creation of unusual security interests that are difficult for investors to evaluate.

(7) Multiple surtax exemptions

Presently our corporate tax law provides a relief to small business in the form of a rate of 22 percent, in lieu of the regular 48 percent, on the first $25,000 of corporate income. It is a clear miscarriage of the intent of this provision for

one corporate chain to take advantage of the fact that its operations are carried on through the legal form of separate corporations to permit many times $25,000 to be taxed at a low rate. Some corporate groups have hundreds of separate corporations. The present law imposes a small penalty rate of 6 percent on the first $25,000 of income of the separate corporations. This has been grossly inadequate as a penalty. The large chain which can pay tax at a rate of only 28 percent on a large portion of its income has an unintended advantage over the local independent organized as one corporation that pays tax on 48 percent of any income in excess of $25,000.

The sequence of corporate income tax statistics from 1964 through 1966 shows a dramatic increase in the number of corporate entities which are paying the 6 percent penalty rate (imposed by the Congress in 1964 on the multiple surtax privilege). Between 1964 and 1966, the number of corporations in total increased by only 3 percent but the number in controlled groups electing to use the multiple surtax exemptions and pay the additional 6 percent rate rose by 20 percent. A full solution of this unintended extension of the small business privilege is imperative.

The transition to this rule would be accomplished by limiting the permissible number of exemptions in a corporate group in 1969 to 100. This number would be reduced to 50 in 1970, 25 in 1971, 10 in 1972, 5 in 1973, and 1 in 1974. The revenue gain when the revision is fully operative would be $235 million.

(8) Farm income rules

In addition to the inclusion of certain excessive amounts of farm loss in the Limit on Tax Preferences (LTP) provision, further explicit changes in the tax law relating to farm income are essential to deal with the capital gain problem in this area, whether or not the total farm losses are excessive in relation to income.

We recommend that livestock which is subject to depreciation also be subject to recapture of excess depreciation at the time of sale under Section 1245, just as other depreciable personal property.

We also recommend that the holding period for livestock, other than race horses, be extended to 2 years or two-thirds of the expected useful life of the animal, whichever is shorter, before sales can qualify for capital gains.

Further, we recommend that race horses in the hands of a breeder qualify for capital gain only if: (1) They are breeding animals, which would be demonstrated by the taxpayer's having bred them; or (2) they are used in the racing business for 2 or more years.

We recommend that a taxpayer with farm operations be required hereafter to keep an "excess deduction account" (EDA) in years in which his farm loss exceeds $5,000. This account would include the amounts by which the ordinary farm deductions in any year exceed by more than $5,000 the total of the ordinary income from farm operations. The $5,000 exclusion would prevent the proposal from having an impact on the small farmer. The amount in the account would be reduced by net ordinary farm income realized in subsequent years. The effect of this excess deduction account would be that any subsequent capital gain associated with the sale of the farm, or of assets used in connection with the farm, would be treated as ordinary income to the extent of the balance in the excess deduction account.

Gain attributable to increases in land values would, however, be excepted from this general rule and would be treated as ordinary income only to the extent that prior deductions of amounts which would have been capitalized but for special statutory provisions have served to create that gain. Thus, the ordinary income on sale of the land would be limited to the lesser of (a) the excess deductions account (EDA), or (b) the amount of deductions under Sections 175, 180, and 182, allowed with respect to the parcel sold.

A taxpayer would not be required to maintain an EDA if he adopted an accounting method which accounted properly for inventory costs and required capitalization of capital costs.

These changes will help prevent excessive advantage being taken under the present liberal farm accounting rules. This advantage exists under present law because it is the nature of farm cash accounting not to distinguish between current costs and many capital investments. A wealthy taxpayer thus finds it attractive to invest in farms in a situation in which most of his deductible farm "loss" is really a capital investment which can be recovered later at capital gains

rates. This is particularly attractive when farm losses can be offset against ordinary income from other sources, but on occasions it also produces unintended benefits for the wealthy person with only farm income. To the extent that the investment is economically sound and thus produces a net economic gain, this net gain would still be capital gain even with our changes if it met the other tests of a capital gain.

Finally, we propose to strengthen the "hobby loss" provisions. Presently, losses are disallowed if a loss of over $50,000 is incurred for five consecutive years. Even if a hobby business is consistently losing over $50,000 a year there is too much opportunity to rearrange income and deductions to break the string of five years. The new rule would disallow the deduction of losses if losses exceeed $50,000 in any three out of five consecutive years. Other structural changes would also be made in these provisions.

(9) Tax-free dividends from accelerated depreciation and public utilities

Under existing law, some companies, particularly regulated utilities, are able to make regular tax-free distributions—primarily as a result of the use of accelerated depreciation. These are advertised as "tax-free dividends."

The problem arises because accelerated depreciation is used for tax purposes while straight-line depreciation is used for book purposes, resulting in smaller tax profits than the book earnings available for distribution of dividends. Such dividends would appear to represent distributions of corporate income and not a return of capital, and they should be taxed. Accordingly, we recommend that accelerated depreciation not be taken into account in the computation of earnings and profits unless accelerated depreciation is used for book purposes. This rule would apply generally, and not just to public utility companies. It would be similar to the present rule requiring use of cost depletion rather than percentage depletion in computing earnings and profits. In order to permit adequate adjustment to the new rules, it is recommended that the proposal be applied beginning after the third year following enactment. At current levels this would increase revenue by $80 million.

The use of accelerated depreciation by public utilities raises additional tax problems which require attention. Regulated public utility companies in general account for depreciation on a straight-line basis for purposes of the regulatory process. Where accelerated depreciation is taken for tax purposes, the actual Federal tax paid is lower than the tax liability that would result from the straight-line depreciation taken for regulatory purposes. Often the regulatory commissions permit taxpayers to "normalize" their tax, that is, to treat as a cost the tax consistent with straight-line depreciation and treat the difference between this and the actual tax as a reserve for future taxes, since accelerated depreciation involves tax postponement. This reserve is treated as a customer contribution to the capital of the company, and no rate of return is permitted on it. In other situations the regulatory commissions require companies to take into account as the income tax cost of their operations only the actual tax paid with the result that the tax reduction due to accelerated depreciation is "flowed through" to the customer as a reduction in price.

Legislation has been introduced to provide that the regulatory commissions should not be able to require companies to take these tax benefits nor to require that the benefits be "flowed through."

The Treasury Department does not believe that the Internal Revenue Code should deal with the regulatory process to the extent of specifying how the tax savings should be handled if a particular corporation freely adopts accelerated depreciation.

On the other hand, the tax law quite explicitly provides a choice for taxpayers between the use of accelerated depreciation and straight-line depreciation. We feel that a regulatory commission should not take advantage of this election by providing that it will only give an allowance in the rate calculation for the Federal tax that would be due if the company had adopted accelerated depreciation. Where a taxpayer has already elected accelerated depreciation, the regulatory commission should have the leeway to continue to make the allowance for Federal tax on the basis of continued use of accelerated depreciation.

If the Congress takes no action in this situation and if utility commissions generally proceed to treat companies as though they had adopted accelerated depreciation and require this amount to be flowed through, the total impact on the revenues, over the next few years, could build up to an annual loss of $1.5 billion. If on the other hand, the Congress enacted legislation that would in all circum-

stances prohibit utility commissions from flowing through tax savings proceeds of accelerated depreciation, there could be a short-term revenue loss as high as $0.6 billion due to some companies feeling free to adopt accelerated depreciation.

In view of the large revenue loss that is possible in any change from the present situation, we think it appropriate for this Congress to enact legislation which would tend to preserve the present state of affairs. This can best be done by preserving the option to use straight-line depreciation to companies that have so far been using a straight-line depreciation. Accordingly, we recommend that Federal and State regulatory commissions be precluded from requiring a company to adopt accelerated depreciation or computing its income for ratemaking purposes as if it had done so unless the utility voluntarily elects accelerated depreciation for tax purposes.

(10) Stock distributions

The tax law has recognized for a long time that a distribution of common stock dividends on common stock does not normally represent a taxable event to the shareholder. He is simply receiving additional shares to represent his same unchanged equity interest in the corporation. The law has, however, recognized cases where such a distribution of stock dividends does change the equity interest of the shareholder just as though he had received a cash dividend and reinvested it in more stock. Present law does not draw this distinction properly, and we need a general provision to identify changes in equity ownership associated with stock dividends. A proposal as to the stock dividend problem was made by the Advisory Group on Subchapter C established by this committee in 1956.

Our proposal substantially follows the recommendation of your Advisory Group. We recommend that Section 305 be amended to make clear that an increase in a shareholder's interest in a corporation, when related to a taxable dividend paid to other shareholders, is to be taxed.

The new section will have the result that in the case of the so-called two class common stock, in which one group gets cash dividends and another gets comparable stock dividends, the stock dividends will be taxable. These stock dividends represent an increase in the relative equity share of the investors holding the stock dividend-stock just as though they had received cash dividends and had reinvested them in more common stock. The new rule also would treat as a dividend the increase in the equity interest of common stockholders associated with redemption of stock pursuant to a periodic plan of redemptions. For example, an offer by a corporation to redeem 5 percent of any shareholder's stock each year results in increasing the proportionate interest of those who do not redeem—similar in effect to paying a cash dividend on some shares and a stock dividend on others. Further, all stock dividends on preference shares would be taxed. The amendment should apply upon enactment to stock issues after April 22, 1969, and to existing issues on and after January 1, 1991.

(11) Capital losses

Net long term capital gains in general are taxed by including only one-half of the gain in ordinary income. A net long term capital loss, however, may be deducted in full against ordinary income up to an annual limit of $1,000. This is not only inconsistent but leads to tax planning of asset sales to separate gains and losses into alternate years. We recommend that each dollar of net long term capital loss be permitted to offset only 50 cents of ordinary income. The limit of the annual deduction should be kept at $1,000 with the present unlimited carryover, except that married taxpayers filing separate returns should be subject to a limit of $500 each. This provision should be effective for 1969 and later years. In the long run this change will increase revenues by $100 million.

(12) Restricted stock plans

During the past few years, there has been a rapid growth in the number of so-called restricted stock plans. Under these plans, an employee receives stock or other property which he is barred from selling immediately or which is subject to other restrictions. Because of these restrictions, tax is not imposed under existing administrative rulings until the restrictions expire—for example, when the employee may sell the stock—but the amount then subject to tax is limited to the value of the stock when the employee received it. In effect, any increase in value during the period the restrictions are in effect is taxed only if the stock is sold and then as a capital gain.

Last October, the Treasury proposed to change these rules to provide that the amount subject to tax when the employee may sell the stock would be its value at that time. We have carefully reviewed this proposal. We believe that it provides the correct result in many cases but may lead to an unwarranted result in others. We think that a fresh approach is warranted in this area and that this may best be accomplished by new legislation. New legislation also will have the advantage of eliminating the existing uncertainty.

We propose that, as a general matter, where an employee receives stock or other property as compensation, he should be subject to tax when his rights in that property become nonforfeitable and that the amount subject to tax at that time should be the full, current fair market value of that stock or other property. Thus, we recommend that restrictions barring sale for a specified number of years not be given any effect for tax purposes. On the other hand, restrictions under shareholders' agreements which do not expire by lapse of time, and thus are prompted by bona fide business rather than tax considerations, would be taken into account. Also, restrictions imposed by law would be taken into account. In these cases, the stock or other property would be taxed at a value determined after giving effect to the restrictions.

The rules we propose are comparable to those which have applied for over 25 years to nonqualified pension and profit-sharing plans. Because of the similarity, we believe that the same rules should apply to restricted stock plans.

(13) Accumulation of income in trusts

A widely used device for the avoidance of the progressive rate scale for individuals is the creation of trusts to accumulate income at low rates. The numerous exceptions to the "throwback" rule, which is intended to apply additional tax at the time that a trust distributes accumulated income to a beneficiary, have permitted many individuals to escape substantial taxes. This is particularly acute when multiple trusts are created.

We recommend that all trust distributions of accumulated income be taxed to the beneficiary. The beneficiary would credit against his tax his share of the taxes previously paid by the trust on such income. A simplified computation procedure would be provided, as is now applied to distributions from foreign trusts. The grantor of a trust would also be taxed on all income accumulated for the benefit of his wife. This proposal should become effective for distributions after April 22, 1969, and subsequent years. It will increase revenue by $70 million a year.

(14) Moving expenses

We recognize the need to deal with the problems arising under present law in connection with reimbursement of employee moving expenses. These are, in an important sense, costs of earning income, although they do have strong personal elements. Because of this dual nature of the expenses, we believe that the miscellaneous costs of moving including the costs of house hunting trips, the costs of temporary living quarters at a new location, and the costs of selling a house (or buying a new one) should be allowed as a deduction subject to a dollar ceiling. We propose a ceiling of $1,000 for these miscellaneous costs with the proviso that deductions be allowed up to an additional $1,500 to the extent that costs of selling or buying a house or breaking a lease are also involved. To provide uniform treatment of old and new employees, an employer reimbursement for moving expenses should always be included in income, and the employee should take deductions within the above-stated limits for expenses actually incurred. This provision should become effective January 1, 1969. The revenue cost of this provision is $100 million.

(15) Small business corporations (Subchapter S)

We recommend that the Congress enact a set of revisions in the treatment of so-called Subchapter S corporations which would make the tax rules for these small business corporations and their shareholders conform more closely to the partnership rules. The changes would make the rules simpler and easier to comply with. The availability of this treatment for small business corporations to avoid the double tax on corporate earnings would also be broadened by removing certain existing limits on its use.

The substance of these changes has been worked out through extended discussion with a committee of the American Bar Asociation. It was the intention

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of the Congress in enacting Subchapter S to provide that a number of small corporations should be able to avoid the impact of the corporate tax if they provided that the full corporate income would be reflected on the returns of the stockholders in the same general way in which partnership income is shown on the returns of the partners. Unfortunately, the utilization of Subchapter S has been restricted because of the considerable complexity of the provision. Under the amendments a simpler set of rules will be available, particularly to a corporation which was always a Subchapter S corporation.

These changes would require that certain limitations now applicable to partnerships be made applicable to Subchapter S corporations also, such as the limitation with respect to pension plan contributions on behalf of shareholder employees.

For the longer run this Administration believes that the Subchapter S option should be made more broadly applicable than it is now. Conceptually, this is a far more reasonable way of dealing with small businesses than is the extension, or even continuation, of a corporate surtax exemption. We expect to give serious study to possibilities for enlarging the application of Subchapter S in ways that will preserve the important element of simplification, and we hope to report back to this Committee shortly in this area.

(16) Extension of special treatment of banks holding foreign deposits

Interest earned on U.S. bank deposits owned by foreigners not resident in the United States and not connected with a trade or business conducted here is exempt from income tax, and the bank deposits themselves are exempt from estate tax. However, existing law provides that these exemptions shall not continue beyond 1972. The expiration date was enacted in 1966 as part of the Foreign Investors Tax Act. At the time, the Congress was concerned that termination of the exemption would have an adverse impact on foreign balances in the United States, and the effective date for terminating the exemption was therefore deferred for six years.

The balance of payments continues to be a matter of concern. While we cannot forecast what the situation will be by 1973, it is clear that the scheduled termination will make a solution to the problem more difficult to achieve. Withdrawals are likely to be made long before the effective date for terminating the existing exemptions. Once impelled to consider withdrawal of their deposits by the prospective taxation of these deposits, foreign depositors are likely to be alert to alternative investment opportunities and will take advantage of them as and when they occur. It is, therefore, important that cancellation of the termination date for the income and estate tax exemptions be undertaken at an early date, if it is to be undertaken at all. Accordingly, we recommend that the Congress take action in accordance with the President's balance of payments statement recommendation of April 4 and that the scheduled termination of the exemptions be repealed.

Conclusion

These, then, are our present proposals. We believe these proposals will materially strengthen the structure of our tax system and provide increased equity. We will return with further proposals as soon as we can make good judgments on the basis of further data, study and discussions. For example, we are proceeding to study intensively application of the estate and gift tax laws, the treatment of assets appreciated at the time of death, the operation of the foreign tax credit, and tax problems of particular industries and types of investment.

To achieve an equitable tax structure, action is required, both in the short run and in the long run. In the short run we need to impose limits on the excessive use of tax benefits and incentives that produce disproportionate tax burdens among our citizens. And we must lift the income tax burden from those in poverty.

In the longer run, we have to apply a stringent analysis to the tax incentives and preferences which our law contains. We need to develop a program of penetrating research and analysis of these provisions so that we can proceed with confidence to save what is good in our tax system and to improve or eliminate what is bad. That will prove to be a challenging task, but we shall move promptly and we shall persevere.

Let me conclude with some thoughts from President Nixon's statement yesterday:

"Reform of our Federal income tax system is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden.

"This Administration, working with the Congress, is determined to bring equity to the Federal tax system."

TABLE IV.—*Sources of income and itemized deductions for the 154 nontaxable individuals with adjusted gross income of $200,000 or more, 1966*

[Amounts to nearest thousand dollars]

Income category	Gain	Loss	Net	Deduction category	Amount
Adjusted gross income (AGI)	112,145	----	112,145	Total itemized deductions	130,458
(Adjusted gross income plus excluded capital gains).	137,169		137,169	Contributions	78,580
				Cash	24,015
Investment income			125,257	Noncash	54,948
Dividends	85,015	----------	85,015	Interest	27,802
Taxable interest	10,457		10,457	Home mortgage	1,102
Capital gains (including				Other	27,699
50 percent of long-term				Taxes	8,681
gains).	26,504	[1] 26	26,478	State and local income	4,657
Estate and trust income	2,246	2	2,244	Real estate	2,072
Royalty income	1,035	274	761	Other	1,953
Business income			−12,758	Medical ------	239
Wages and salaries	6,536		6,536		
Farm	32	2,655	−2,623	Miscellaneous	15,156
Other business	1,899	10,125	−8,226	Tax computation and credits:	
Partnership	797	8,761	−7,964		
Subchapter S Corp	133	1,151	−1,018	Taxable income	1,505
Rental income	1,150	613	537	Tax before credits	836
				Tax credits [2]	838
Other income	1,460	1,172	288	Tax after credits	------
				Depletion [3]	927
				Depreciation [3]	3,559

[1] Capital loss after $1,000 limitation.
[2] Principally investment credit and foreign tax credit.
[3] Limited to depletion and depreciation reported on individual income tax return.

TABLE V.—*The 154 nontaxable individual income tax returns reporting AGI of $200,000 or more in 1966, classified by major tax reducing factors* [1]

Major tax reducing factor	$200,000 to $500,000 AGI	$500,000 to $1 million AGI	Over $1 million AGI	All nontaxable returns over $200,000 AGI
Deductions:				
Charitable contributions	19	13	17	49
Interest	55	16	1	72
Taxes:				
State and local income	12	----	----	12
Real estate	1	----	----	1
Not specified	1	----	----	1
Miscellaneous, not specified	12	3	----	15
Credits [2]	3	1	----	4
Total	103	33	18	154

[1] Returns are classified according to the principal factor reducing tax from a high adjusted gross income base.
[2] Primarily investment credits and foreign tax credits.

Exhibit 31.—Other Treasury testimony published in hearings before congressional committees, July 1, 1968–June 30, 1969

Under Secretary Walker

Statement before the Joint Economic Committee, February 19, 1969, on the Economic Report of the President.

International Financial and Monetary Developments

Exhibit 32.—Remarks by Secretary Fowler, September 24, 1968, before the 6th International Conference of the Forging Industry Association

I

The financial statesmen at Bretton Woods served us well. The foundation they laid, on which has been built an everincreasing degree of international policy coordination in economic and financial affairs, has helped make the past 20 years a period of unprecedented prosperity and development in the free world.

Next week the Ministers of Finance and Central Bank Governors of the 111 member countries will be in Washington to attend the Annual Meetings of the World Bank and the International Monetary Fund. Here ways and means of further improving the structure of international financial cooperation will be on the agenda for public comment and informed discussion.

Gold and its relationship to the international monetary system is part of that structure and I thought it might be useful to explore that subject with you today.

The association of gold with recurrent crises in the international monetary system together with its proven inadequacy as a reliable source of international liquidity in a growing world economy have made desirable a public reexamination of the role of gold and the international monetary system. Gold has had a long and honorable service as a means of settling international payments. But the current reexamination of the role of gold can be viewed as a contemporary echo of passions out of the past; to paraphrase William Jennings Bryan, the issue today is to make sure that the international monetary system is not crucified on a cross of gold.

The need to make gold the servant and not the master of our economic destiny is part of the continuing effort to strengthen the international monetary system. It is, and can only be, met by putting international policy coordination on a sufficiently consistent, persistent and flexible basis to avoid the disruptions and minimize the risks of the unpredictable that have characterized past crises. This is a never-ending effort.

The adjustment of international financial cooperation to a moving tide of events and developments is solidly based on the common recognition by the financial authorities of the overwhelming majority of countries in the free world that the international monetary system rests on four pillars:

—A strong and well-balanced U.S. economy with a strong dollar which holds its purchasing power and can be profitably invested in the U.S. money or capital markets and, therefore, can be held as a safe international reserve or as a safe and useable means for making international commercial payments.

—A fixed $35 per ounce official price of gold and a dollar that is convertible into gold at that price by monetary authorities.

—Convertibility of other currencies into dollars at stated rates of exchange.

—Adequate international reserves and credit facilities to support the system.

The U.S. Government is solidly committed to these principles. It is a solid commitment because these principles have had long-standing bipartisan support in the United States. This bipartisan support has been essential to the strength and position of the United States in the international financial arena.

The bipartisan character of our position in international financial affairs can be graphically illustrated by specific actions over the past 10 years.

The decisive vote, with majorities from both parties in both Houses, under the responsible leadership of both parties in both Houses, to enact the recent Revenue and Expenditure Control Act of 1968, is a current example. This action to increase taxes and cut projected public expenditures—both unpopular measures in an election year—was designed to keep the U.S. economy strong and well-balanced and to strengthen the dollar at home and abroad.

In his message to the nation last New Year's Day President Johnson emphasized that the need for action to bring our balance of payments to, or close to, equilibrium in the year ahead "is a national and international responsibility of the highest priority." This statement was paralleled by the recent Republican Platform commitment "that the balance of payments crisis must be ended and the international position of the dollar strengthened."

The policy to maintain the existing official price of gold and convertibility of gold into dollars at that price has been the subject of public commitments by three administrations—Eisenhower, Kennedy, and Johnson.

When, in the last year of the Eisenhower Administration, the flurry in the London gold market in October 1960 raised questions about the U.S. position on the official price of gold, the Treasury Department, on October 20, 1960, issued the following statement:

"The United States will continue its policy of buying gold from and selling gold to foreign governments, central banks and under certain conditions, international institutions, for the settlement of international balances or for other legitimate monetary purposes, at the established rate of $35 per fine troy ounce, exclusive of handling charges.

"As Treasury Secretary Anderson has stated many times in the past, it is our firm position to maintain the dollar at its existing gold parity."

To close ranks with the Republican Administration on this question, on October 30, 1960, Senator John F. Kennedy, then the Democratic candidate for the Presidency, issued a statement saying "We pledge ourselves to maintain the current value of the dollar. If elected President, I shall not devalue the dollar from the present rate. Rather, I shall defend its present value and its soundness."

As President, John F. Kennedy repeated that commitment and devoted his second message to the Congress to measures designed to make good on that commitment.

In February 1965, shortly after his inauguration, President Johnson said in his balance of payments message, "The dollar is and will remain as good as gold fully convertible at $35 per ounce."

In his balance of payments message on New Year's Day last January, President Johnson repeated "The dollar will remain convertible into gold at $35 an ounce, and our full gold stock will back that commitment." Congress acted to remove the remaining statutory restriction on the use of U.S. monetary gold for that purpose in March.

It is noteworthy that legislation to authorize additional international credit facilities through quota increases in the International Monetary Fund in 1960 and 1965 and authorizing participation in the General Arrangements to Borrow in 1962 have been approved with strong bipartisan support in both Houses of the Congress.

But perhaps the most dramatic illustration of bipartisan support for international financial cooperation was the action of the Congress last May in the field of reserve assets. President Johnson requested that the Congress authorize U.S. participation in a program to build up international reserves through multilateral arrangements looking to the deliberate creation of Special Drawing Rights in the International Monetary Fund as a supplement to gold and the reserve currencies.

This type of program has had solid bipartisan backing since 1965 in the Joint Economic Committee of the Congress. This action of the Congress providing U.S. approval and support of an amendment to the Articles of Agreement of the International Monetary Fund was passed by a vote of 236 to 16 in the House of Representatives, and by a voice vote in the Senate after overwhelming bipartisan support from the House Banking and Currency Committee and the Senate Foreign Relations Committee.

II

I have set out the record on the position of the United States because there is a tendency in some foreign quarters to misunderstand, misstate, or underestimate it.

Because of its key role in the system, the United States has special responsibility, but it does not seek to dictate. In dealing with the problem of gold and the international monetary system, as in dealing with all problems relating to the international monetary system, the United States is dedicated to the principle of multilateral decisionmaking rather than unilateral action. Our objective is to maintain and improve an international monetary system that will better serve its fundamental and only valid purpose—to foster the continued growth of trade and the movement of capital and people among nations to the benefit of all.

Our gold policies must contribute to, and be consistent with, this purpose. This is the test by which they should be judged.

In these terms, I would like to outline the central points underlying the policies of the United States on gold.

First, the United States believes that gold has, and will continue to have, an important role in the system. Existing gold reserves are about $40 billion. This is more than half of total international reserves. The loss of these monetary reserves or a substantial diminution in their value as monetary reserves would be undesirable. Their relative proportion in world reserves will diminish over time, but they will continue to be a key element in international liquidity and in the operation of the international monetary system.

Second, the United States believes that the maintenance of the existing official price of gold for monetary purposes and the convertibility of the dollar into gold at that price is the backbone of the monetary system; that to increase or decrease the official price of gold would be a highly destabilizing factor; that any change in the official price of gold would result in gross inequities and would needlessly endanger the international economic cooperation built up over the postwar period.

Third, the United States believes we can no longer rely on gold production as a source of future additions to international liquidity. The Special Drawing Rights facility under the IMF is designed to meet this need.

Fourth, the United States believes that neither gold, nor gold markets, nor gold speculators should be permitted to unsettle and interfere with international economic stability. Nor should the international monetary system—or the world economy—be placed at the mercy of arbitrary forces that would result from sole or undue reliance on gold for monetary reserves.

We believe these points add up to a policy that safeguards the legitimate interests of countries which hold substantial amounts of gold in their monetary reserves as well as those which do not. We do not believe it will cause any difficulty for the gold-producing countries—nor any change in their position compared with what it has been for the past 30 years. But the system cannot accommodate the desire of gold producers, private gold holders and hoarders, gold speculators, or investors in gold stocks, for an increase in the monetary price of gold. Their desire for windfall profits is understandable but it has nothing to do with the principles of international financial management and it is inconsistent with the stability of the international monetary system.

Contrary to some assertions, the United States is waging no war with gold producers. The commodity they produce is a useful commodity and they are entitled to the best price they can get for it. But I must point out that this also has nothing to do with international financial management or the international monetary system.

I recognize that an active and worldwide gold lobby exists which seeks to promote the view that an increase in the official price of gold is necessary and inevitable. I will go into the subject of the price of gold on its merits later on. At this point I want only to emphasize that the existence of this self-interested propaganda is a factor in the equation that must be kept in mind.

The profits could be very high:

—for the major producing countries,

—for business and private banking institutions dealing in gold,

—for the stockholders of gold mining companies, where they are privately owned,

—for governments, as in the U.S.S.R., where gold production and sale is handled by a state organization, and

—for those who have hoarded or speculated in gold on the hope or expectation of a rise in the official price.

In markets which are highly sensitive to rumor and vulnerable to manipulation it is of particular importance that one recognize these factors of self-interest when they are at work.

The public should be aware of these influences, as are the officials who deal with these problems. The public should have the knowledge, awareness and skepticism in appraising analyses and proposals dealing with gold and the monetary system to separate propaganda and self-interest from the overriding international public interest in a viable international monetary system.

Private gold interests would certainly gain heavily from an increase in the monetary price of gold. It is our conviction that the World Economy and international monetary system would lose. In this basic point—as in the other central points of our position on gold—we share a common view with almost all the other free world countries.

III

The results of two very important monetary meetings which took place in March of this year make clear the almost unanimous consensus of major industrial nations on this issue.

I refer to the March 17 meeting in Washington[1] of the heads of the Central Banks of the gold pool countries and the March 30 meeting in Stockholm of the Finance Ministers and Central Bank Governors of the leading financial nations known as the Group of Ten.[2]

A key premise of both the Washington Communiqué establishing the two-tier gold system and the adoption of the Special Drawing Rights proposal at Stockholm was that the monetary price of gold would remain unchanged. This premise, abundantly evident, has still apparently not been understood or accepted by some.

The only reasonable justification that could be claimed for an increase in the monetary price of gold stems from the need for an increasing supply of international liquidity. This argument, however, depended upon the assumption that no preferable way could be devised to provide for the needed increase in world monetary reserves.

The Washington and Stockholm meetings demonstrated that this assumption was not valid. The Washington Communiqué of the Central Bank Governors stated that "as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market."

Agreement on the creation of the Special Drawing Rights followed swiftly at Stockholm. Moreover, the Stockholm Communiqué was explicit in its reference to maintaining the $35 monetary price for gold—paragraph 4 stated, "The Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world based on the present official price of gold." All countries represented, save one, subscribed to that paragraph.

Agreement on this essential point by the Central Bank representatives of the gold pool nations meeting in Washington, the subsequent expressions of support by most of the rest of the free world, the agreement among government representatives of the Group of Ten countries in Stockholm, and the expected ratification of the Special Drawing Rights plan by the member nations of the IMF demonstrate the support of an overwhelming majority of the nations of the free world for two fundamental operating principles:

—the official price of gold must remain at $35 an ounce; and

—the new Special Drawing Rights facility (and not new gold production nor an increase in the price of gold) will provide the necessary regular additions to international liquidity.

This agreement represents a fundamental decision on the future of international monetary policy building strongly on the foundation of the Bretton Woods Charter. It provides dramatic evidence of the strength of international economic cooperation which has developed so swiftly and pervasively during the 1960's.

Now let me review briefly the events and emerging forces which led to these agreements.

Prior to the 1960's, the private gold markets operated without intervention by monetary authorities. In the early postwar period of the late 1940's and early 1950's the price fluctuated widely, generally well above the monetary price. This spread was a manifestation of the lack of confidence in currencies in some areas of the world. There was no doubt, however, about the strength of the dollar or the 35 to 1 relationship between it and an ounce of gold.

As greater stability was attained and more newly produced gold became available to the market, the market price stabilized near the monetary price and fluctuated narrowly both above and below the $35 monetary price until the fall of 1960 when there was a brief but intense speculative outburst in the private gold markets, including the principal one in London.

This attack was quickly curbed. Actions, including the supplying of gold from the official monetary reserve of the United States through the Bank of England to the private market, kept the price in line with the official price.

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[1] See 1968 annual report, page 370.
[2] See 1968 annual report, page 372.

This single-handed undertaking by the United States in late 1960 to keep the two prices in line was extended in the fall of 1961 into a multilateral arrangement which became known as the gold pool.

The gold pool arrangement, which encompassed the United States and the seven major industrial countries of Europe, was one of the first of many cooperative multilateral arrangements to be worked out during the 1960's to deal with speculative attacks on the markets involving gold and currencies. The pool continued to operate in the markets from late 1961 until mid-March of 1968. Until the devaluation of sterling in November of 1967, it successfully carried out its objectives of smoothing out market movements and providing an orderly way for residual supplies of newly mined gold to enter the monetary system.

During the years 1963–65, $1.3 billion in gold was taken off the market as a result of gold pool operations. Without these purchases by the pool the private market price would have undoubtedly fallen below the $35 monetary price. Even with this offtake from the market, however, the average addition of gold to monetary reserves in the 6 years from the inception of the pool in the fall of 1961 up to November 1967, amounted to only about $150 million annually. Thus gold in this decade has not been a significant source of world reserves—even before the disturbances arising from sterling devaluation.

The sterling devaluation at mid-November sent shock waves across the international monetary system. Despite the fact that few countries followed the United Kingdom action, there were massive currency flows across the exchanges and a speculative outbreak in the private gold markets.

These developments were not unexpected, and monetary authorities were prepared to deal with them. Central bank action quickly brought reasonable stability to the foreign exchange markets and the currency flows moderated. The two big waves of speculative gold buying in November and December were met by determined intervention in the London market by the gold pool countries but at a cost of about $1.5 billion in gold from monetary reserves.

This was the classic method of meeting speculative attack. The authorities were willing to meet this cost in order to achieve time to set firmly in place the already well-developed but not yet fully agreed plan for a new reserve asset—the Special Drawing Right. The countries of the world had worked long and hard to produce such a plan, which would free the world's monetary system from excessive reliance on new gold supplies or on balance of payments deficits of reserve currency countries for needed additions to international reserves. The new plan—currently in process of legislative ratification—provides for controlled reserve asset creation by international decision.

Dependence upon gold as a source of new reserve growth was demonstrably uncertain and inadequate because of supply limitations. Obviously, speculative waves such as those of November and December intensified the uncertainty and actually led to reductions in world reserves. The United States balance of payments deficits were regarded as undesirable both by the United States and the rest of the world—their elimination, or even sharp reduction, would cut back needed reserve growth. Thus, the search for a new reserve asset had begun some years back, and agreement on this new plan was close at hand.

After announcement of the new U.S. balance of payments program on January 1, 1968, speculative buying of gold moderated considerably. It looked, for a time, as though the classic method had worked again and there would be time for a smooth transition to the new system. But, in March, a new and even bigger gold buying wave was set off.

The authorities set out to meet this one with the same approach. Another $1.5 billion in monetary reserves of gold was used. But, as the speculative fever grew, it became evident that the pool's actions were not restoring stability but actually seemed to be feeding the fever. And, by this time, the new reserve plan was very close to agreement. So a new course of action could be and was taken. The monetary authorities decided to insulate the monetary system from speculative activity and the private market.

As I have noted, they reaffirmed their determination to maintain the established official price of gold and established machinery that could protect monetary reserves while letting the commodity market for gold go its own way. They could take this action with some equanimity because of the now clearly demonstrated inadequacy of gold as a stable source of reserve growth. Also, from a pure market point of view, it was apparent that the large speculative purchases of gold since mid-November, 1967, constituted an overhang of supply for the private market which probably would moderate private market price movements.

The transition at mid-March took place with remarkable smoothness, considering the tense atmosphere that had preceded it, the abrupt change in conditions, and the inevitable doubts and uncertainties about anything new or unknown in the international monetary field. The new system has worked and is working well.

What was far more remarkable was the belief that continued to be held, perhaps because of wishful thinking by those who wanted a gold price rise, that the world's monetary authorities— faced with crisis—would raise the price of gold and, thereby, perpetuate their dependence upon that asset when they had worked so long and hard to free themselves from that dependence.

IV

Since the idea of a price increase, despite near unanimity against it by monetary authorities, appears to die hard it may be worthwhile to review the underlying arguments on their purported merits. Here I shall attempt only a brief review.

William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, earlier this year made an excellent analysis of the issues. I highly recommend to you his address of February 14 entitled "The Price of Gold Is Not the Problem." He fully developed a position which I have fully supported as to why a price increase would be neither necessary nor desirable.

I, admittedly, make a poor proponent of the case for an increase. I can see the need for regular and adequate increase in monetary reserves and the undesirability of relying on a large expansion of reserve currency holdings for this purpose. I can appreciate the fact that past experience shows that the monetary system will not receive adequate increases in gold reserves at the current price. If we did not have the good sense and the ability to act together in our common self-interest, perhaps we could be forced to consider an increase in the gold price as a choice among evils.

But, the fact is the free world has already demonstrated both the imagination and the will to arrive at a rational and constructive solution to the liquidity problem which does not involve the difficulties and inequities that have marked previous experiences with gold.

Those who advocate an increased price sometimes profess to see an intrinsic value to gold that is lacking in other reserves.

Nothing would, however, more clearly disprove the claim that gold has special enduring qualities than to change its price. Who is to determine where and by how much the price is to be changed? Is it to be changed at long intervals and by large amounts, or more frequently and by small amounts? The answer must be that the decision would be a man-made determination devoid of relationship to the intrinsic value of gold. Gold as an international reserve has man-made value but the adjustment of its supply to the needs of the system is complicated and distorted by the vagaries of gold production, by the forces and fevers of speculation and by its use as a commodity. As an international reserve, it is no less man made than Special Drawing Rights—but these can be closely adjusted to the needs of the system by international analysis and decision.

A doubling of the price, as is frequently suggested, would add over $40 billion of new reserves to the system at one stroke. This would be an inflationary action which the advocates think can somehow be managed even though at the same time most of the same advocates profess great fear of the inflationary potential of a small and regular annual increase of liquidity—say $2 billion or so a year—through the creation of Special Drawing Rights.

If smaller increases are attempted they must obviously be much more frequent and thus keep gold and exchange markets in a constant state of agitation—at the cost of inhibiting the international flow of goods and capital.

Under either of these circumstances uncertainty could prevail. Dependence on gold for liquidity increases invites speculation on the few remaining variables—its price, the ability of technology to discover and extract gold, and the vagaries of Russian sales in the West. The international monetary system would take on the character of a gambling casino.

The idea of the impartiality of supplying liquidity through changes in the gold price is equally questionable. It would arbitrarily benefit countries who have already maximized the gold component of their reserves and the large gold-producing countries—without any regard for the stability needs of the monetary system. It would put a premium on the maximization of gold holdings by all countries.

Some gold producers are fond of suggesting that the fixed price of gold for monetary use has held down the price of their commodity. The fact is, however, that if one separates out the commodity supply and demand factors, the newly-produced gold supply even today, and without considering the hoards in either monetary or private hands, well exceeds the legitimate commodity demand.

V

This fact, plus the agreement to provide international liquidity through the creation of Special Drawing Rights made it possible and timely to separate the use of gold as a monetary reserve from its use as a commodity.

Gold may now circulate in two separate and distinct channels. Its use as a reserve will continue as will the purchase and sale of existing gold reserves among countries and international monetary institutions. The existing stock of gold reserves will be preserved and not further diminished by its use as a commodity or for private speculation or hoarding purposes.

World reserves may, however, grow—and in a rational and controlled way best designed to meet the global needs of world trade and payments. This growth will be primarily provided over time by the issuance of Special Drawing Rights on an equitable basis among the members of the International Monetary Fund.

What this means is that gold will continue to play an important role as a reserve asset for the foreseeable future. Its role over time will, however, diminish as Special Drawing Rights provide the bulk of new liquidity.

The other gold market—"the commodity market"—will function as any other commodity market. The price may exceed or fall below the monetary price without official intervention.

I shall not join those who predict at what price level the private market is most likely to trade. I have already noted that if the purely commodity demand for gold (that is, its present demand for industrial use, jewelry, dentistry, etc.) could be isolated it would be well overshadowed by supply. New production is estimated at about $1.4 billion annually outside of Russia and other Communist nations which make no statistics available. Commodity demand, on the other hand, is generally estimated at about three-quarters of a billion dollars. These data would indicate downward pressure on price but they are not the only factors entering into the private market. The other factors are the demand for hoarding and the demand for speculation.

In distinguishing the hoarder from the speculator I define the former as one who is not primarily concerned with the worldwide price of gold or the monetary price in terms of the dollar but who traditionally turns to gold as store of value and sometimes as protection against political and economic uncertainties that affect the currencies of his own country. This demand is more difficult to estimate and merges with the other categories of demand—on one hand, with the use of jewelry in some areas and, on the other, with the speculative demand. Knowledgeable but uncertain estimates place it at around one-quarter billion dollars.

Even at the upper range of estimates, industrial and the hoarding demand together are well within the amount of new production, valued at the $35 price.

We are thus left with the speculative supply or demand as a determining factor in the market. And, it should be noted that particularly at the present time the speculative factor may be a source of supply as well as demand. This results from several related causes. One is the fact that speculative holdings built up during the buying spree following sterling devaluation are still very large. The workability of the two-tier system has dashed the speculator's hopes for a change in the monetary price of gold and makes his holding more volatile. Many speculators may find it too costly to continue to hold a non-earning asset such as gold and recognize they have fought a losing battle. Furthermore, they are no longer promised a floor on the market and must consider the risk of loss—even with a market price at or close to $35 per ounce.

It is neither necessary nor desirable to the functioning of the monetary system that this element of risk to the speculator be removed.

VI

As with any innovation, and particularly innovations in the monetary field where a cautious outlook properly prevails—some time is needed for a full adjustment to new realities.

During this period of adjustment, we believe, as do almost all other countries, that it would be preferable from the standpoint of the international monetary system for the commodity price of gold not to deviate too far from the monetary price—either on the upside or the downside.

A sharp drop in price below $35 per ounce in the private market could cause concern about the value of gold held in existing monetary reserves.

The international monetary system has a vital stake in maintaining the value of gold in existing monetary reserves at $35 an ounce—neither less nor more. This provides assurance both to the countries which hold a large proportion of their reserves in gold and to those which hold a small proportion of their reserves in gold. It is clearly within the capabilities of the system to provide such an assurance, and the United States believes it is important to the stability of the system that this be done. But for gold producing countries that assurance must run only to their monetary reserves and only after they have disposed of their newly mined gold, and any price stability assurance that is provided should not apply to newly mined gold or that held in private hands.

In giving assurance on existing monetary reserves, we will not accede to any proposal that puts a floor under the private market, thereby assuring the speculators who have built up their hoards of gold that they may unload it at no less than the monetary price.

A sharp increase in the market price for gold could also be destabilizing. This could occur if we allow producers or speculators to "play" the market to the detriment of the system.

To provide an outlet for newly mined gold into the monetary stock at the sole discretion of producers would allow precisely such a game to be played and played by those who have expressed publicly avowed desires of bringing about a rise in the monetary price of gold. To bow to these interests would be to confuse the needs and objectives of a commodity producer and a commodity speculator with the needs and objectives of the international monetary system and the world economy. This would indeed be anomalous—and it would have unfortunate and unnecessary consequences for us all.

The prospect is that price stability will be maintained if the commodity market for gold is permitted to function normally. Therefore:

—newly produced gold supplies should not be artificially withheld from the market,

—marketing should be orderly.

In short the market should not be artificially manipulated to invite speculation and higher prices clearly designed to put pressure on the monetary price—and thus on the international monetary system itself.

Given the unique position of gold as both a commodity and a monetary instrument, special problems could still arise in the two-tier system. It should be possible to devise solutions for such problems—provided such solutions are designed to strengthen and do not threaten to weaken the two-tier system for gold and the monetary system as a whole.

VII

In conclusion let us take a brief look at the longer run view of the future as it pertains to gold.

I do not believe that the creation of the Special Drawing Rights facility and the two-tier gold system have solved all future problems. Some they are not designed to meet—others now unforeseen can and probably will arise. For instance these improvements in the system do not deal with, or remove the necessity for, the United States to correct its balance of payments. While they may facilitate or encourage the adjustment process, they do not alter the need for all countries—both those in deficit and those in surplus—to deal with their payments problems.

In international finance, as in other human endeavors, progress brings new problems in an ever evolving world. We cannot rest on past triumphs. I feel now that the stage has been set—a beginning made—for a new era of development in the monetary field. New mechanisms of international cooperation have been set in place and tested. Sane, rational decision making among nations has replaced the self-defeating nationalism of earlier eras.

Our actions of the past year alleviate some very important and fundamental problems that have plagued the system with growing intensity in the 1960's.

Provision has now been made for an orderly and equitable addition to world reserves on a global basis. We should, therefore, no longer be confronted with

the threat of a liquidity squeeze which endangers the growth of world trade and investment. The members of the international monetary community now will be able to add to world reserves by their deliberate action in accordance with liquidity needs.

We have accomplished this through the arrangements for the creation of the Special Drawing Rights by a means which removes any possible need for an increase in the price of gold with all of its short- and long-term destabilizing consequences. As a result of the arrangements for the SDR's and the two-tier gold system, methods have now been devised which will divorce gold as a commodity from gold as a monetary reserve. As time passes, we will be increasingly indifferent to the price of gold on the commodity market for it is indeed irrelevant to the operation of the system.

Gold will play a continuing and important role in the monetary system but the caprices of production and private demand should no longer bring unwelcome and unwarranted pressure on the system itself.

The monetary importance of gold will gradually decline as it forms a lesser percentage of international reserves. But, with over $40 billion now in monetary hands, it will very likely be a major element in reserves for much further in the future than I would attempt to foresee.

All of our problems are not met but a more stable foundation has been laid. The United States takes some pride in having been a partner with other nations of the free world in bringing about these improvements in the world's monetary system.

Exhibit 33.—Communiqué of the Ministerial Meeting of the Group of Ten, September 30, 1968, Washington

1. The Ministers and central bank Governors of the 10 countries participating in the General Arrangements to Borrow met in Washington on 30th September, 1968. Mr. Krister Wickman, Minister for Economic Affairs of Sweden, presided. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the President of the Swiss National Bank, the Deputy Secretary-General of the OECD and the General Manager of the BIS.

2. The Ministers and Governors heard a report by the Chairman of their Deputies. They noted that the Deputies had reviewed the functioning of the General Arrangements to Borrow midway through its present 4-year term to 1970 and they agreed that no change in the GAB is necessary.

3. The Ministers and Governors instructed their Deputies to continue their regular meetings for the purpose, in particular, of keeping under close review the functioning of the international monetary system.

4. Mr. Karl Schiller, Minister of Economics for the Federal Republic of Germany, was elected Chairman of the Group of Ten for the coming year.

Exhibit 34.—Remarks by Secretary Fowler as Governor for the United States, October 1, 1968, at the Joint Annual Discussion of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates

We meet once again in the noble cause of international cooperation. Our works—the works of peace—embody the hopes and dreams of all men.

It is my pleasure to welcome my fellow Governors and other guests to Washington once again after our memorable and enjoyable meeting last year in Rio de Janeiro.

I offer congratulations to our two world organizations and the countries they represent in the quality of leadership secured in the year past for the years ahead. In the election of President McNamara of the Bank and the reelection of Managing Director Schweitzer of the Fund, we in the free world are fortunate.

I am happy to welcome the entry into membership of Botswana, Lesotho, Malta, and Mauritius during the past year.

I

At this meeting we can for the first time speak of the Special Drawing Rights in terms of formal legal amendments approved by the Board of Governors now

in the process of acceptance by member governments. The SDR facility makes a timely entrance on the world's stage. It is increasingly evident that there is a clear need for a supplementary reserve facility of this character. The events of the past year have already shown that monetary authorities can act with greater confidence because of the prospective establishment of this facility.

My Government has been proud to act promptly both to ratify the amendments establishing the Special Drawing Rights facility and deposit its instrument of participation.

I earnestly hope that all of the members of the Fund will approve and join in the new facility. Indeed, the monetary system as a whole would benefit if the requisite number of governments completed the process of ratification and certified participation to the Fund by the end of this calendar year. The Fund could then, early in 1969, consider the activation of the facility to provide supplementary reserves in the years ahead.

For the first time in the world's history, we shall be looking to the leadership of an international institution to provide conscious direction in recommending the amount of growth in world reserves which the international community needs to facilitate trade and development.

Article XXIV sets forth general guidance to the Fund on discharging its responsibility under the new amendments:

"In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and avoid economic stagnation and deflation as well as excess demand and inflation in the world.

"The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future."

Already the Executive Directors of the Fund have concluded that "action in the area of reserve creation might well become an essential element in international cooperation aimed at achieving a lasting international payments equilibrium in a world environment of satisfactory economic growth and of resumed progress toward liberalization of current and capital transactions."

The Annual Report of the Fund examines recent developments in world reserves and concludes with these words:

"In sum, reserve developments over the past several years have been dominated by special and erratic influences that, on balance, have led to a substantially slower accumulation of countries' official reserves than in prior periods. Such developments could not, over the longer run, be expected to provide the basis for a satisfactory performance of the world economy."

During the years 1966 and 1967, global reserves rose only slightly more than \$3 billion. Monetary gold reserves, in fact, declined substantially. The upward secular trend of reserves was maintained only by an increase of over \$5 billion in foreign exchange and in claims on the Fund. With both the United States and the United Kingdom having taken vigorous measures to reduce their deficits, reliance on accumulation of these currencies for increases in world reserves would be unwise. The major industrial countries, excluding the United States and United Kingdom, in fact have added only about \$500 million to reserves during the 12-month period from July 1, 1967, to June 30, 1968. This is not enough to assure the continued high growth of world trade, world capital movements, and world income.

It is fortunate, therefore, that we can look forward to the Special Drawing Rights to provide the needed secular growth in reserves. I believe that in the months ahead the need to activate this facility—and on a large enough scale—will be a very urgent matter on our agenda.

The principles and considerations bearing upon activation of Special Drawing Rights also suggest an examination of the substantial progress now being reported by the two major reserve currency countries in their efforts to achieve balance of payments equilibrium in their own accounts.

We have reason to be heartened by the signs of progress now emerging in the economy of the United Kingdom. We look forward to continuation of this trend as the realistic program employed by the British Government makes its full mark upon the international transactions of that country.

As far as the United States is concerned, I am pleased to report that our accounts are moving toward equilibrium. Since our meeting in Rio, the devaluation of the pound sterling, the subsequent run on the monetary gold stock, and a deterioration in the U.S. balance of payments, caused the United States to reassess its contribution to the balance of payments adjustment process.

President Johnson, in a message to the Nation on January 1, launched an Action Program designed to strengthen both the current and the capital accounts of our balance of payments. With the first 6 months' statistics already in hand and with early indications on the third quarter, there is clear evidence that substantial progress is being made toward the President's target.

The delay in the imposition of the tax bill until the end of June will certainly influence our timetable but not the result. With the passage of the fiscal restraint package in June of this year, the economy was put on a more sustainable path of expansion. The fiscal package will cut some $20 billion from the Federal budget deficit in fiscal 1969.

As this strong medicine works and our economy moves into better balance we anticipate an improvement in our trade position. Our private capital account has already shown a remarkable improvement.

Results so far this year from the overall balance of payments program are gratifying. On a seasonally adjusted liquidity basis, the first quarter deficit of $660 million was down substantially from the fourth quarter 1967 deficit of $1,742 million. The second quarter showed a continuing favorable trend with a deficit of $170 million. One of the most striking developments has been the substantial surplus on official reserve transactions during the first half of this year. Results, so far in the third quarter, are encouraging.

Whatever the outcome of our election, I am confident that the United States has arrived at a fixed and determined policy to bring our balance of payments into equilibrium as a national and international responsibility of the highest priority and to move in a determined way toward restoring price stability in an atmosphere of balanced growth. This is a major source of my confidence in the future of our international accounts.

The decisive vote to increase taxes and to decrease projected public expenditures—both unpopular measures in an election year—should go far to sustain confidence in the dollar, the economy on which it is based, and our system of government.

This vote was a momentous decision—to pay our nation's bills and order our economic and financial affairs in such a manner as to reduce sharply the twin deficits in our Federal budget and in our international balance of payments.

I believe that this action will make possible and probable a return to far better balance in our Federal budget, in our international payments, and in our economy during the fiscal year 1969, which began on July 1.

This action by the President and the Congress of the United States to impose fiscal restraint was designed in large part to protect and strengthen the financial system of the free world and discharge the responsibilities of the United States in making the adjustment process work.

I join the Managing Director in his observation that:

"The renewed momentum in the world economy over the past years has depended too much on the overly rapid expansion in the United States. It is vital that, as the U.S. advance slackens, those countries for which expansion is indicated on domestic and external grounds should take up the role of pacemaker. In the meantime, I am happy to note that it has recently proved possible for some leading European countries to generate a larger outward flow of long term capital."

Over the longer run, our task will be to extend the record of vigorous economic growth that has been established during the 1960's. With the economy and the national finances now coming into better balance, our domestic expansion, with its unprecedented duration of 91 months, has been placed on a much more secure basis—with promising effect on our balance of payments.

Apart from the unilateral efforts of the United States and the United Kingdom to strengthen the position of the reserve currencies and provide balance to the economies on which they are based, the functioning of the international monetary system has been strengthened by impressive developments in international financial cooperation.

Notable examples are the enlargement of the "swap" networks among a number of major financial nations and their proven effectiveness in dealing with several potentially destabilizing short term capital movements, the arrangement

recently announced to strengthen the position of sterling, and the decision of the participants to maintain their commitments under the General Arrangements to Borrow.

An even more significant and far-reaching step was the agreement on measures to arrest the decline of monetary gold reserves and to insulate the international monetary system from the destabilizing influences of the private gold market and speculation in gold. I refer to the agreement on gold policies of the central bank representatives of the active gold pool nations meeting in Washington on March 17 and the subsequent expressions of support from most of the rest of the world. The meeting of the Group of Ten at Stockholm provided additional underpinning to that consensus and to the monetary system as a whole.

I had the occasion, in an address on September 24, 1968, here in Washington, to restate the gold policies of the United States and to set forth in some detail the important relationship we see between these gold policies and the stability of the international monetary system. I refer any interested Governor to the full text of that speech.[1] I will only repeat here a few paragraphs pertaining to the operations of the International Monetary Fund:

"* * * The international monetary system has a vital stake in maintaining the value of gold in existing monetary reserves at $35 an ounce—neither less nor more. This provides assurance both to the countries who hold a large proportion of their reserves in gold and to those who hold a small proportion of their reserves in gold. It is clearly within the capabilities of the system to provide such an assurance, and the United States believes it is important to the stability of the system that this be done. But for gold producing countries that assurance must run only to their monetary reserves and only after they have disposed of their newly mined gold, and any price stability assurance that is provided should not apply to newly mined gold or that held in private hands.

"In giving assurance on existing monetary reserves, we will not accede to any proposal that puts a floor under the private market, thereby assuring the speculators who have built up their hoards of gold that they may unload it at no less than the monetary price."

I also said in that address and repeat here:

"Given the unique position of gold, as both a commodity and a monetary instrument, special problems could still arise in the two-tier system. It should be possible to devise solutions for such problems—provided such solutions are designed to strengthen and do not threaten to weaken the two-tier system for gold and the monetary system as a whole."

I would like at this point to venture a few remarks about the future.

The new facility for Special Drawing Rights is a major forward step in the evolutionary process of improving the international monetary system. It has received wide support among economists, academic, business and financial leaders, and, of course, among monetary officials. In the United States it enjoys broad and enthusiastic bipartisan support in the Congress. This happy situation is the result of the thorough study and painstaking discussions of the problem in international bodies, in legislative committees, in academic circles and in the financial press during the period in which the Special Drawing Rights plan evolved.

I would hope that further evolutionary changes in the international monetary system would emerge in the same way. The only appropriate way to seek improvement in the system is through the same procedure of careful study, widespread official and public discussions and carefully considered action.

The further evolution of the system may not involve such fundamental changes as we have seen in 1968, but, while conserving our proven arrangements, we must be prepared to consider change at all times and with an open mind. The reason is very clear. The purpose of the international monetary system is to make it possible for all of us to produce more at home, to trade more with each other, to use capital on the widest and most efficient scale, to visit more with each other, and to help each other, in an atmosphere of financial stability. The stronger the monetary system, the better we can do these things; the weaker the monetary system, the more we will have to restrict ourselves—at home and abroad.

Monetary officials must keep abreast of new ideas and proposals and be willing to examine them in full and free discussion. Such new proposals come from economists, either in the academic or the business world, from the private business community, from legislative committees, and from monetary officials them-

[1] See exhibit 32.

selves. For example, the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the U.S. Congress recently suggested for study some specific proposals to improve the monetary system.

Academic economists and others without operating responsibilities in the international monetary system can become troubled that many of their proposals do not seem to receive a full hearing from monetary authorities. The authorities, on the other hand, sometimes charge that these proposals from outside sources are not properly grounded in the problems and conditions of the real world. Without careful official examination no one can say at present whether, in the process of official and public discussions and interchange of views, ideas on this important subject will evolve into an area of common ground and constructive action.

The central point is that if useful proposals do not attract the interest of responsible monetary officials and are not thoroughly assessed for feasibility, desirability and acceptability they may fade into the background and be lost. This we cannot afford.

For this reason, I approve most heartily the sentiments expressed by the Managing Director in his opening remarks, "The world does not stand still and the effort to improve the monetary system which serves it is an unremitting task." I take comfort in his position that, "standing as it does at the heart of the system, the Fund is deeply committed to this task * * *" [that] "it will remain alert to those needs and actively explore what contribution it might make to the further strengthening of the world monetary system" [that] "continuing attention will have to be paid to the workings of the adjustment process, the long term structure of reserves, and the role of reserve currencies within that structure."

In a few months I shall leave my responsibilities as Secretary of the United States Treasury and United States Governor of the Fund. Therefore, it would not be appropriate for me to launch specific initiatives with which my successor would have to deal without his having participated in the launching. For this reason I do not advance any specific proposal; I take no stand in favor of or against any particular proposal. But, may I suggest that the appropriate institutional mechanisms be mobilized early next year to work on further improvements of the international monetary system in the context of the completion of the ratification of the amendments for Special Drawing Rights.

I repeat my central point: We started with the strong foundation built at Bretton Woods. We built an impressive network of international cooperation on that foundation. We built a major addition to that foundation in the Special Drawing Rights Amendment. We must be prepared in the future, as we have in the past, to approach together and to work out together additional ways to strengthen the international monetary sysem. To do less is to fail in our responsibilities to maintain and advance our public trust.

II

I turn now to the field of development finance. President McNamara's opening remarks yesterday were bold, challenging, and constructive. He has placed before us his plan of action—grounded in practicality and constructed with vision. We have heard from him how the Bank plans to move along its course at an accelerated pace while probing into new fields. I believe this plan is right. I have confidence that as Governors of the World Bank we will respond to his leadership. The urgent need to do so is rooted not only in the hopes of hundreds of millions of people, denied and deprived, but in the well-being of the interdependent family of nations.

Over the years, the distinguished Presidents of the World Bank, its senior management and staff have molded the Bank into a solid lending institution of unquestioned excellence. They have given the Bank worldwide stature as a prime mover of development finance, as the best forum in which to examine development problems, and as a source of creative initiatives.

We welcome President McNamara's prompt move to obtain the services of Lester B. Pearson of Canada to conduct a "grand assize" of the development process. Such a comprehensive appraisal will be a vital element in devising a broadened international consensus on assistance to the developing countries—this consensus has suffered gravely in recent years from the combined shocks of budgetary and balance of payments difficulties in capital exporting countries, compounded by international monetary disturbance and somber events in a num-

ber of aid recipient countries. The Commission will enjoy the fullest support and cooperation of the United States.

We have made major progress on many of the great problems of development. We have created an institutional structure for countries to join in the common purpose of helping to improve the harsh conditions of life in which large segments of the world's population exist. A viable institutional framework for development now in fact exists. We have created, extended and consolidated a framework embracing both multilateral and bilateral elements that permits external assistance resources to flow and be properly coordinated.

This great institution, the World Bank, has grown from a single entity in the early postwar years to a healthy family of specialized institutions. Regional banks have emerged in Latin America, Africa, and Asia as major financing instruments, closely attuned to the needs and opportunities in the specific regions they are designed to serve. Moreover, as President Johnson, speaking of the Middle East said on June 19, 1967,

"In a climate of peace, we here will do our full share in support of regional cooperation."

In creating this complex of institutions we have not built haphazardly. Our architecture has been coherent and innovative, complementary, and responsive to needs.

We have also witnessed the response of the developing countries to the need to organize themselves in order to attract and efficiently exploit the external assistance that was available. The extent of these efforts to upgrade the capacity to apply aid effectively has varied from country to country, but several elements have increasingly emerged: the formulation of development objectives and multi-year plans; improvement in the technical capacity to design well and execute efficiently projects that are sound and economically justified; institution of self-help measures that give external donors assurance that domestic economic and human resources are being diligently applied; and creation and maintenance of a climate that attracts foreign private investment, without which an unsustainable burden will fall on official external financing. Although much has already been done by many developing nations to bring about those conditions that will yield a maximum flow of resources for development, we must recognize that more remains to be done.

I turn now to a pressing development problem whose solution will require all our ingenuity and best efforts. This is the financial resources problem: it will dominate the development process in the decade ahead. By and large, we know what must be done, and we have the instrumentalities to do it. But the component that is still lacking is the crucial one—a sustained volume of financial resources at a level high enough to do the job.

Finding the answer to this problem is a formidable task and the new replenishment of IDA is a major element in this effort. Absolute top priority should be given to the successful completion of the governmental approvals necessary to bring this replenishment into effect. I am hopeful that the U.S. Congress will act soon to authorize U.S. participation in this replenishment of IDA. An executive proposal to that effect has been pending before the legislative body since last spring.

The establishment of IDA and an earlier replenishment of its funds received strong bipartisan support from the U.S. Congress and three Presidents—Eisenhower, Kennedy, and Johnson. The basic reason for this record of support has been the conviction that a multilateral approach to development assistance is a desirable national policy and an essential feature of international financial cooperation in the world in which we live.

I can tell my fellow Governors that U.S. participation in the new replenishment agreement has received the overwhelming approval of the House Banking and Currency Committee with bipartisan support and that it is favored by a preponderant bipartisan majority of the Senate Foreign Relations Committee. I express again my continued hope that procedural difficulties and views by a limited number of opponents will not block early approval—particularly in view of the fact that approval by the United States is essential to the replenishment agreement becoming effective.

* * * * * * *

I would like now to mention a few of the ideas bearing on the solution of the problem of assuring an adequate volume of development finance on which I think a broad agreement exists.

1. *Strengthening the multilateral approach.*—It is no longer open to question that a strong multilateral approach holds the greatest promise for marshalling major amounts of funds for development on an equitably shared basis.

The multilateral financial institutions have a well-earned reputation for efficient operations, deriving in large part from the enlightened management they enjoy and the competent staffs they have assembled. They maintain a rigorous objectivity in the financial and technical assistance they render and they demand of their borrowers economic performance based on dispassionate comparison of efforts and potentialities. For all these reasons, the multilateral institutions inspire confidence on the part of governments and private investors alike that they have the capacity to administer wisely the funds that are entrusted to them.

Because of the confidence they now enjoy, the multilateral institutions are in a unique position to exercise constructive leadership in the critical process of mobilizing development resources that will be adequate in relation to the demands of the developing world.

The stronger their leadership becomes, the stronger their potential for attracting financial resources in world markets. This means leadership in marshalling capital for development finance, guiding the determination of needs and priorities, in selecting the best approaches to the development task, in encouraging both developing nations and capital exporting nations to pursue sound and helpful policies. It also means leadership in developing approaches and techniques to ensure that the balance of payments of donor countries is taken fully into account in arranging the flows of development funds.

This kind of objective leadership cannot and should not be undertaken by any single nation, either donor or recipient. Only by making full use of the leadership potential of the international financial institutions can we mount the most effective attack on the problems of development finance.

2. *Broadening the sources of multilateral development financing.*—A truly multilateral approach to development financing requires a broad multilateralism in the source of borrowed funds as well as in the capital structures of the institutions. Excessive dependence on a single capital market is not sustainable over the long term, nor is it desirable from the standpoint of the institutions themselves, which need the flexibility that can only come from widely diversified sources of borrowed funds. International institutions can and should play an important part both in developing capital markets and in finding other ways of drawing resources from balance of payments surplus countries. Their objective must be the continued strengthening and expanding of the resource base of development finance.

3. *Improving the mobilization of domestic resources by developing countries.*—A third factor on which the solution of the resources problem of the seventies will depend is the efficiency with which governments of the developing countries mobilize their own resources. This involves a tax system and a tax administration that is oriented to balanced economic growth and a set of domestic policies that is conducive to private savings and investment and the avoidance of the disruptions and distortions that characterize unchecked inflation. I would list among the irreducible minimum of sound financial policies necessary for growth a public expenditure program that is formulated with clear priorities in mind, incentives to balanced growth, stable prices, appropriate wage policies, and maintenance of realistic exchange rates. These policies and economic conditions are part of the essence of the self-help concept.

Certainly of great importance in this connection is the establishment of an effective and efficient tax system. The developing nations themselves do—and must continue to—provide the bulk of the resources needed for their development. This is not only because unlimited external resources are not available, but also because too much reliance on external resources would bring an intolerable debt burden. Revenues raised domestically, therefore, are inevitably a first resource for development and the pace of development will in consequence depend in large part on the revenues yielded by the tax system.

Substantial international efforts such as the Inter-American Conference of Tax Administrators have already been devoted to encouraging ways to make tax systems more efficient and thereby make revenues available as a source of development finance. But more can be done. For example, tax administrators and tax policy officials in a particular geographic region can establish forums for regular exchange of ideas and experience. The IMF, the World Bank, and the regional banks can add a new dimension to their activities by more active leader-

ship in fiscal operations. They can synthesize existing bodies of experience and analysis and disseminate the product widely in forms most useful and practical for developing countries.

Beyond these steps, the multilateral development finance institutions can, in their own lending operations, give greater recognition to those countries making the greatest relative effort to mobilize their domestic resources.

4. *Compatibility of multilateral development finance with the adjustment process.*—I have always regarded it as axiomatic that the development finance mechanism should function in a way that reinforces the workings of a sound international monetary system. This means that development finance must contribute to expanding levels of trade and payments and the smoother flows of international capital. It must also be consistent with what we have come to describe as the balance of payments adjustment process. This matter is closely related to the central problem I am addressing in these remarks—that of assuring a flow of development finance that is both sustained and adequate. We can expect such a flow only if we can arrange that it function to ameliorate, rather than exacerbate the imbalance in world payments and that it exercise a stabilizing rather than a destabilizing influence on world payments.

Development finance must therefore take into account balance of payments considerations as these considerations affect the ability of donor countries to provide resources. I have already touched on the role of the multilateral banks in mobilizing resources in the private and public capital markets. I should refer here to the recent IDA replenishment proposal as an excellent example of the way safeguards for deficit donor countries can be integrated into an international understanding without sacrificing any of the fundamental principles that have been the strength of such institutions.

5. *Private enterprise and development.*—I believe it has also become clear even to those who may have had lingering doubts that the adequacy of the flow of resources depends in large measure on the attraction of private investment, domestic and foreign, into development channels.

Official financing, vital as it is and will be, cannot be the major element in the financing of development. Of key importance is the far greater volume of private capital flowing internally and from abroad. In my own view, and I know it is shared here, fostering conditions for the full application of the creative energies of private entrepreneurship is essential for accelerated development. And it is also essential that these conditions be attractive for foreign as well as domestic private investment, for with the former come additional benefits of new productive technology as well as management techniques.

One need look no further than the group of countries that can be considered development "success stories" to confirm that vigorous private enterprise development plays a key role in practically all such countries. Recent U.N. figures show a close correlation between net private capital inflows and high rates of growth. The lesson should be plain.

Let me add a further thought regarding the character—rather than the volume—of private investment flows in the future. Just as the early postwar years were ones in which new mechanisms evolved to channel the flow of public development finance, so is the present period one in which new mechanisms are evolving in the field of private foreign investment. The multinational operating company, the multinational management service company and other structures now emergent represent the emerging multilateralism in the private investment sector. It is in the interest of all concerned that we facilitate movement in these new and significant directions.

III

Last year in Rio, the Governors of the Fund and Bank called on the staffs of the Fund and Bank for studies on the problem of stabilization of prices of primary products. Although it has not been possible for the organizations fully to complete their work on this important and demanding task, I compliment them on what they have been able to do in examining this question. The analytic part of the study which has been transmitted officially to the Governors contains a very full discussion of many important aspects of this wide-ranging topic.

There is urgent need for more attention to the root causes of market difficulties and to the possibilities of better coordination of trade, production and development policies. The case of coffee, where we can have 5 years of experience, has shown both that there is scope for assisting developing countries through price

stabilization arrangements and that where success is obtainable in such a price arrangement it hinges ultimately on bringing supply and demand into balance, at an equitable level, and encouraging diversification.

It is well that the Bank and Fund staffs have broken new ground in working together on this difficult problem and it is urgently necessary that both become more involved in this area in the future.

There can be no lasting improvement in commodity market conditions without more attention to helping the developing countries make the necessary adjustment in policies and plans. These are areas in which the Fund and Bank, respectively, are already making important contributions. These institutions are well situated to do more, with benefit to our collective interests, if they are permitted and invited to play a more active role in the international consideration of particular commodity problems and in the framing of specific proposals to ameliorate them.

We shall look forward to the further work to come with deep interest and sympathy. I am glad to support the resolution which the President and Managing Director have put forward to the Governors on behalf of the Executive Directors.

IV

Fellow Governors, in this last meeting with you as the United States Governor may I be permitted a personal word.

For nearly 4 years as Under Secretary of the United States Treasury and the last 3½ years as Secretary, I have been privileged to work with many of you in the common cause of international financial cooperation for peace, prosperity and development. I am grateful to you, my colleagues, for the many kindnesses and courtesies bestowed on me in countless meetings here, in your countries, and at our other international gatherings.

We have pursued together the development of ever firmer policies and programs of international cooperation which logically flow from the earlier foundations which our countries built together in the years following World War II.

The past 7½ years have been fruitful in putting international cooperation in the economic and financial area on an ever more intensive, intimate, and productive basis.

Let us look back on a few examples.

—The General Arrangements to Borrow and the 1965 expansion of the resources of the Fund which have given it a much more substantial capacity to perform the task originally allotted to it at Bretton Woods.

—The creation of huge currency swap networks, now totalling almost $10 billion, which have proven valuable tools in minimizing the destabilizing effects of short term capital flows.

—The quick, quiet, informal, and effective means to assist nations that have found themselves in temporary monetary difficulties—Canada, Italy, the United Kingdom, and, most recently, France.

—The expansion of multilateral aid to the developing nations through the enlargement of the resources of the International Development Association, the Inter-American Development Bank, and the creation of regional banks in Asia and Africa.

—The reciprocal reduction of tariff barriers in the "Kennedy Round."

—The development in the Fund and the OECD of machinery for the multilateral surveillance of the adjustment process and the creation of standards and guidance for the industrial countries in the 1966 Report to the OECD on "The Adjustment Process."

—The development of a new facility in the Fund for Special Drawing Rights to provide an orderly expansion of world monetary reserves.

—Cooperation on gold policies in the interest of greater stability for the international monetary system.

But looking ahead I am confident that the future holds opportunities for even greater and more significant progress in this area of our common aspirations. For the United States, participation in the creation of these building blocks of international financial cooperation flows logically from the basic policies laid down, at the end of World War II and pursued by Presidents Truman, Eisenhower, Kennedy, and Johnson, with the bipartisan support of the U.S. Congress.

I venture not only the hope but solid confidence that this pursuit of international economic and financial cooperation will be continued by their successors

because it represents the deepest aspirations of the American people for living with their neighbors on this planet.

I have the same confidence in the future policies of the other member countries of the Bank and the Fund. They are born of the same aspirations.

As President Johnson said yesterday: "Let us not fail to be wise."

Exhibit 35.—Memorandum for President Johnson from Secretary Fowler, November 5, 1968, on the economy

The economy continues to grow at a substantial pace maintaining its record performance of 93 months of uninterrupted prosperity. Unprecedented economic success in the years of your Administration have stretched the expansion that began under President Kennedy in 1961 from a bit over the average 30-month duration to one now in its 93rd month—with general expectations for an indefinite continuation, given continuity in the policies now being followed.

This unprecedented growth and prosperity is amply reflected in all the indices of a dynamic economy—output, income before and after taxes, production and business activity, employment, unemployment, wages, and profits.

Employment is reasonably full and unemployment remains under the 4 percent level that has characterized recent years. Our free enterprise economy continues to generate jobs at a rate commensurate with the entry of trained young people into the labor force. At the same time it is steadily modernizing its plant and equipment to increased levels of productivity.

The growth rate accompanying this expansion has added nearly $370 billion of annual Gross National Product to the approximately $503 billion annual rate that existed in 1960. In other words, in the course of this 93-month expansion it is as though the nation had annexed territory and population with an economy in excess of the total national product of all the nations in the European Economic Community or roughly comparable to the total Gross National Product of the Soviet Union last year.

The nation has met in the year past an even sterner test than moving from a stagnant economy to a dynamic one—the imposition of necessary restraint.

In the last fiscal year strains and pressures threatened this sustained prosperity, the strength of the dollar, and our international monetary system—as an excessively exuberant economy coincided with increasing military expenditures, a deteriorating balance of payments and a devaluation of the British pound with resulting instability in the gold and foreign exchange markets.

The remedial measures you proposed in August 1967 in your tax message and your New Year's Day balance of payments message have been largely adopted and are being executed, to the extent authorized by law.

They are proving successful. Intolerable deficits in our budget and international payments in the last fiscal year are being eliminated. We are approaching balance in our Federal budget and equilibrium in our international payments in the fiscal year 1969 that began last July 1.

The Revenue and Expenditure Control Act, enacted belatedly last June, has locked Federal finances into an appropriate posture through June 30, 1969.

Shifting from a fiscal stimulus to moderate fiscal restraint, the fiscal policy of this act, coupled with the appropriate monetary policy being pursued by the Federal Reserve Board, is making possible the achievement of other desired ends—avoiding excessive growth with its excess of demand, arresting an inflation, and enabling the economy to move back toward reasonable price stability, given accompanying voluntary restraint in private price and wage decisions.

Moreover, the shift away from a huge prospective Federal deficit has eliminated the overhang of large Federal financing demand on the money markets. This has resulted in more orderly markets and some decline in interest rates from peak levels of earlier this year, with somewhat lower rates eventually in prospect.

The execution of your Action Program announced last January has substantially improved our balance of payments situation. It has moved from a huge deficit in 1967 to near equilibrium in the second and third quarters of this year on the liquidity basis of measure. There is a substantial surplus thus far this year on the official settlements basis.

There is reasonable prospect of continuing improvement next year, assuming, as I hope will be the case, that there is no dismantling of your Action Program and the initiatives launched in that Program to improve our trade surplus and reduce the *net* deficits in Government military expenditures abroad and private travel are *vigorously* pursued until a durable surplus or long term equilibrium is assured.

There are favorable prospects for the future of our current account. The sharp decline in the trade surplus resulting from a flood of imports has bottomed out and has been rising steadily in recent months. And there is some probability of reduction in the net drain of military expenditures in the Far East. An effective attack to prevent an increasing travel deficit awaits legislative action.

Because the fundamental measures have been taken, even in the forbidding climate of an election year, the dollar is strong and confidence in it is reflected not only in the recent Annual Meeting of the International Monetary Fund, but in the decisions of private investors and the conduct of central bankers the world over.

This underlying strength is supported by factors in addition to the fundamental measures, such as:

1. The bottoming out of the long term decline in the level of our monetary reserves, with a substantial increase in gold holdings since last March.
2. The paydown in our borrowing from the IMF, thereby freeing all but $200 million of our gold tranche of $1,290 million of automatic credit for financing.
3. The increase in the "swap" network between the Federal Reserve Bank of New York and the monetary authorities of other powerful financial nations and institutions to an availability level of $10.2 billion for the United States.
4. The practical clearing of U.S. calls on the "swap" network necessitated by the short term dollar flows into central banks last fall and winter.
5. The removal of the gold cover limitation on the use of reserves.

An intangible but nonetheless significant source of strength and stability for the world economy, of which the United States and the U.S. dollar is an integral part, is the recent progress that has been made for enlarging and intensifying the scope, scale and nature of international financial cooperation. This progress, evolutionary in character, has involved measures of accord for international financial cooperation to maintain and improve a functioning international monetary system. These measures had a variety of objectives:

(a) Avoid the panic and disruption that normally accompany war and special strains on the currencies of important trading nations.

(b) Forge a new international monetary facility to provide an orderly expansion of world monetary reserves, and

(c) Establish and maintain arrangements for cooperation on gold policies in the interest of greater stability for the system.

Quick, quiet, informal, and effective means to assist nations that have found themselves in temporary monetary difficulties this year—the United Kingdom and, most recently, France—give confidence for the future.

The successful development and operation of the so-called two-tier system for gold since the agreement on gold policies of Central Bank representatives of the gold pool nations meeting in Washington last March 17, and the subsequent expressions of support of most of the rest of the world, now reveal that agreement as a most significant and far-reaching step. It has arrested the decline of monetary gold reserves and insulated the international monetary system from the destabilizing influences of the private gold market and speculation in gold.

The agreements reached at Rio de Janeiro last September and in Stockholm last March for the creation of a new facility for Special Drawing Rights in the International Monetary Fund are the culmination of years of intensive study and negotiation. Acting in concert, the world's leading nations have taken the long step toward the provision of an international monetary system in which reserve needs can be met through conscious and deliberate action. This constitutes the greatest forward step in the improvement of the international monetary system since the creation of the International Monetary Fund itself.

An amendment to the Articles of Agreement of the Fund providing the new Special Drawing Rights facility has been completed pursuant to the decisions at Rio de Janeiro and Stockholm. It was submitted to governments last May 31 with the near unanimous approval of the Governors of the member nations of the Fund. Since that time 20 countries out of the 67 necessary, possessing 43 percent of the weighted vote of the 80 percent necessary, have ratified the amendment. It has not been formally rejected by any member government. In-

formation indicates the likelihood of completion of the ratification process by the end of the year or early January.

The most serious problem confronting the economy is to carry through the process of disinflation now underway and restore price stability without excessive unemployment or slow and inadequate growth too long endured. We have turned the corner toward price stability. But the turn and improvement, limited in time and quantity, leaves a price and wage performance far from satisfactory.

Maintaining the proper mix of fiscal and monetary policies is the fundamental and essential element. Moreover, the nation must continue to expand training and retraining programs to improve the match of labor skills to market needs and facilitate the mobility of workers and jobs.

In addition to these measures we must continue to encourage the high levels of investment and coordination to improve efficiency that have characterized recent years, vigorously apply the antitrust laws, and carry through on the reduction of tariff barriers without imposing quotas on imports.

A supplementary anti-inflation program has been in preparation for six months by the Cabinet Committee on Price Stability. It is designed to deal with inflation prone sectors, such as medical services and construction costs and to provide new proposals for securing responsible wage and price behavior on a voluntary basis in those sectors of the economy where there is a substantial national interest in wage and price decisions.

Exhibit 36.—Communiqué of the Ministers and Governors of the Group of Ten Meeting in Bonn, November 20–22, 1968

1. The Ministers and Central Bank Governors of the 10 countries participating in the General Arrangements to Borrow met in Bonn on 20th to 22d November 1968 under the chairmanship of Mr. Karl Schiller, Minister of Economics, Federal Republic of Germany. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund took part in the meeting, which was also attended by the president of the Swiss National Bank, the Deputy Secretary General of the OECD, the General Manager of the BIS and the Vice President of the Commission of the European Communities.

2. The meeting was called by its chairman, Minister Schiller, on the proposal of several member countries. The Ministers and Governors had a comprehensive and thorough exchange of views on the basic problems of balance of payments disequilibria and on the recent speculative capital movement.

3. The participants agreed that international monetary stability is the joint responsibility of all countries in the international economic community. Both deficit and surplus countries expressed their willingness to contribute effectively to the stability of the international monetary system through appropriate and concerted economic policies. They agreed on measures to counter speculative capital movements.

4. Minister Schiller explained the decision of the Federal Government of Germany to introduce immediate tax relief on imports of 4 percent of the value and a tax burden on exports of 4 percent of their value. These measures will substantially reduce the German trade surplus. The German government also intends to restrict certain short-term transactions of German banks with nonresidents; and the Federal Bank has decided yesterday to raise to 100 percent the reserve requirement on additions to banks' liabilities to foreigners.

5. After thorough discussion of the German measures the Ministers and Governors agreed that these measures would make a significant contribution to the stability of the monetary system and the adjustment process. In the light of those measures, they endorsed the decision by the Federal Government to maintain the parity of the D-Mark.

6. The French Economic and Finance Minister explained the situation of the French currency, the measures already taken toward a restoration of internal and external equilibrium, and the problems still to be solved.

7. It was decided to set up a new central bank credit facility for France in the amount of $2 billion. This is in addition to France's substantial drawing facility in the IMF.

8. The decision on the above mentioned credit facility underlines the determination of monetary authorities to counter speculation and to offset the effect

on reserves of destabilizing short-term capital flows. For the same purpose the Governors, together with the BIS, will examine new central bank arrangements to alleviate the impact on reserves of speculative movements.

9. The participants welcomed the measures taken which will make a major contribution to the restoration of international payments equilibrium.

Exhibit 37.—Exchange of letters, December 16, 1968, between Secretary Fowler and Canadian Minister of Finance E. J. Benson

DEAR MINISTER BENSON: In completing the 1969 U.S. Balance of Payments Program and while arranging for an orderly transition, I thought it would be useful to review the unique financial relationship which exists between our two countries. This was last described in the exchange of letters I had on March 7, 1968, with your predecessor, Mitchell Sharp. In my letter I noted: "Unique financial relations between our two countries have been a mutual support to both and to the international monetary system. These relations have served the interests of both our countries without interfering with the domestic policies of either." Events since March add a new endorsement to this judgment.

This unique relationship which our two countries share is a natural reflection of a common and peaceful border of some 5,500 miles. It reflects as well the importance of trade and capital and neighbors who move across this invisible boundary. Recognizing this interdependence, we have long since believed that it is not in the interest of either country to occasion destabilizing influences on our currencies which might inhibit the other country in the pursuit of its own economic objectives. To this end, our policies in this field have been to support our overall objectives to our mutual advantage.

This is the reason, notwithstanding the crisis then raging in the gold markets of the world and only shortly after the President's New Year's Day balance of payments message, that in March we were able to exempt Canada from our balance of payments measures. This exemption and your reaction to it was indeed "mutual support." Canada was thus assured of access to our markets for a wide range of capital transactions, enabling Canada to continue its traditional method of financing its current account deficit with the United States and permitting financial institutions in both countries to operate flexibly.

This latest recognition of the interrelationship of our international payments is also the reason you have taken constructive actions to ensure that Canada is not used as a "pass-through" channel by which the purpose of the U.S. Balance of Payments Program might be frustrated. Moreover, the policy under which you invest your foreign exchange holdings is to our mutual advantage.

This is also the reason that in the exchange of letters last March we reiterated the basic principle that it would not be Canada's intention to increase its foreign exchange reserves through borrowing in the United States. Implementation of this principle does not require that Canada's reserve level be limited to any particular figure. We are well aware of Canada's need for flexibility with respect to reserve levels in order to accommodate the adaptation of monetary policy to the changing needs of its domestic economy, seasonal factors and other influences of a temporary nature. This statement of objectives recognizes that under circumstances in which an improvement in the payments position of the United States is essential to the strengthening of the world monetary system, it is in Canada's own interest to avoid hindering the achievement of this objective by unnecessary borrowing in the United States. In recent times capital markets in other countries have developed a capacity which has attracted borrowers from many countries. Canadian authorities have taken advantage of these expanding capital markets to raise funds in substantial quantities. These developments now offer Canada an alternative means of achieving an increase in its reserves whenever Canadian authorities believe this is desirable. In addition, Canada has given strong support to the arrangements for new Special Drawing Rights which, when activated, will offer a source of regular and automatic additions to international reserves. Both our countries, along with other nations, actively support the ratification of this new facility in the International Monetary Fund and the activation of these reserve assets as soon as possible.

In undertaking this review of our relationship, I have been very much aided by the knowledge and experience our respective governments have gained through the close consultations which form such an important part of this relationship. These consultations will, of course, continue to permit us to keep each other fully informed of our views regarding current financial developments.

The unique financial arrangements we have developed, expressed first with the joint statement of July 21, 1963, and brought up to date today, provide support to the payments position of both countries and hence strengthen the international monetary system.

Sincerely yours,

HENRY H. FOWLER.

The Honorable EDGAR J. BENSON,
Minister of Finance,
Ottawa, Ontario, Canada.

DEAR SECRETARY FOWLER: I welcome the review of financial relationships between Canada and the United States which you have provided in your letter of today's date.

As you have noted, the Canadian Government is keenly aware of the importance to Canada and to the world, as well as to the United States, of the strength of the U.S. dollar and, as a means to that end, of a continued improvement in the international payments position of the United States.

With this in mind, the Canadian Government has adopted policies to ensure that the exemption of Canada from the U.S. Balance of Payments Programme would not endanger the success of that programme. In particular, we have taken steps to prevent Canada from becoming a "pass-through" channel for the flow of capital from the United States. We have also found various appropriate means of supporting the payments position of the United States. Thus the Canadian Government has invested its U.S. dollar reserves (in excess of working balances) in special nonmarketable issues of the U.S. Treasury. It also turned to the expanding capital markets of Europe to find funds with which to rebuild Canada's foreign exchange reserves. In the course of this year substantial sums have been added to our reserves as a result of borrowings of the Government of Canada and other Canadians outside the United States, and the investment of these sums has provided support to the payments position of the United States. We expect, as you note in your letter, that the implementation of the Special Drawing Rights scheme in the International Monetary Fund will provide an additional well-regulated source of new reserve assets.

I too have found very useful the close consultations which have come to form such an important aspect of the relationship between our two countries. I look forward to a continuation of them as a means of keeping each other fully informed of our views regarding current financial developments.

In the light of all these considerations I can reiterate to you that it is not an objective of Canadian policy to achieve permanent increases in our exchange reserves through unnecessary borrowing in the United States. I fully share the view expressed in your letter that the implementation of this principle does not require that Canada's reserve level be limited to any particular figure, and that our reserves may be expected to fluctuate to accommodate the adaptation of monetary policy to the changing needs of the domestic economy, seasonal influences, and other influences of a temporary nature.

Yours sincerely,

E. J. BENSON,
Minister of Finance.

Exhibit 38.—Exchange of letters, December 17, 1968, and December 18, 1968, between Secretary Fowler and President Johnson, concerning the 1969 balance of payments program

THE WHITE HOUSE,
December 18, 1968.

DEAR MR. SECRETARY: I have reviewed and approved the report of the Cabinet Committee on Balance of Payments setting forth recommendations for 1969.

Our balance of payments program consists of a series of ongoing policies in a number of related areas. It must at all times be coordinated and pulled together.

We have made our recommendation for 1969 at this time to facilitate an effective transition to the new Administration and the orderly development of future policies in this important area.

We have made a great deal of progress in 1968 toward our goal of a healthy equilibrium in our balance of payments. More programs must be achieved to assure the continued strength of the U.S. dollar. The stability of the international monetary system, and the great amount of world trade which it supports, depend upon that strength.

I would like to thank you and the other members of the Cabinet Committee on Balance of Payments for your determined efforts to propose and to do whatever is necessary to keep the dollar strong.

Sincerely,

LYNDON B. JOHNSON.

The Honorable HENRY H. FOWLER,
Secretary of the Treasury.

THE SECRETARY OF THE TREASURY,
December 17, 1968.

DEAR MR. PRESIDENT: Near the end of each year beginning in 1965, your Cabinet Committee on Balance of Payments has submitted a recommended Program to guide and coordinate the many Federal activities relevant to our international balance of payments. This letter report will set forth the recommendations of the Cabinet Committee on Balance of Payments for the 1969 Program. Your approval of this Program should facilitate an effective transition and orderly development of future policies in this important area.

With my colleagues on the Cabinet Committee and the aid of your staff, we have coordinated the execution of the Action Program contained in your Balance of Payments Message to the nation last New Year's Day. A 1968 Progress Report will be separately submitted.

We have also considered together the nature and extent of the program needed for 1969 if the nation is to build on the progress made in 1968 and achieve a viable and durable equilibrium in our international balance of payments. It is submitted below.

The Cabinet Committee on Balance of Payments has worked with me in preparing the 1969 Program. The following participants join with me in these recommendations:

The Secretary of Defense
The Secretary of Commerce
The Secretary of Transportation
The Under Secretary of Agriculture
The Under Secretary of State for Political Affairs
The Administrator of the Agency for International Development
The Special Representative for Trade Negotiations
The Director of the Bureau of the Budget
The Chairman of the Council of Economic Advisers
The Chairman of the Federal Reserve System.

A few preliminary comments are in order concerning the overall policy framework in which these recommendations are submitted.

Our determination to achieve equilibrium in our international accounts is as vital today as it was on January 1, 1968, the day you announced your Balance of Payments Action Program. The removal of our international payments deficit remains "a national and international responsibility of the highest priority."

The execution to date of the broad and comprehensive Action Program you announced on last New Year's Day has substantially improved our balance of payments situation. A huge deficit in 1967 has been whittled down to near equilibrium in the second and third quarters of this year on the liquidity basis of measure. There is a substantial surplus for the first three quarters on the official settlements basis.

We are pleased that the nation is making substantial progress toward achieving equilibrium in our international balance of payments. But we cannot be satisfied with the relative composition of its components. Our progress is spotty and some of it may be transitory. It is spotty because two big elements in our current account—trade and tourism—are far from satisfactory, and a third—a reduction

in net deficit in Government military expenditures in Southeast Asia—must in large measure await the restoration of peace in the area.

There is reasonable prospect of continuing improvement next year. This assumes that there is no dismantling of the ongoing elements of your Action Program. It also assumes that the initiatives launched in that program to improve our trade surplus and reduce the net deficits in military expenditures abroad and private travel will be vigorously pursued. Until these elements of the program are effectively executed, we will not have the durable surplus or the assurance of a long term equilibrium that will enable us to abandon some of the temporary and less desirable measures we have been forced to employ.

These temporary measures have served us well. They helped bring the necessary immediate improvement in our balance of payments and have given renewed confidence in the strength of the United States dollar. These temporary measures, appropriately modified, are needed for some additional period. As the longer term measures, instituted last year and in some of the preceding years, yield increasingly larger benefits, the restraint achieved by the temporary measures may be phased out.

To complete our task, a continued and sustained effort will be needed. This is the quickest and surest route to the strong and viable payments position which will permit us to eliminate those aspects of our program that are not wholly compatible with the free flow of trade and capital movements.

These are the underlying principles which your Cabinet Committee on Balance of Payments believes should govern the program in 1969.

1. *A stable economy and the restoration of a healthy U.S. trade surplus should be the primary objective for 1969*

The keystone of a sound international financial position of the United States and of the dollar is a trade surplus. Without it, the United States cannot do what is natural and desirable for its role in the free world—to export capital, to provide its share of the common defense, to give foreign aid, and to have large numbers of its citizens traveling abroad.

Hence, the first order of business in your last New Year's Day Message was for Congress to enact an anti-inflation tax, which, coupled with expenditure restraint and appropriate monetary policy, could help stem the inflationary pressures which threatened our economic prosperity, stability and our trade surplus. You also urged labor and management restraints in wage-price decisions and instructed your principal officers in the economic area to work with leaders in business and labor to make effective a voluntary program of wage-price restraint. A similar instruction on preventing our exports from being reduced and our imports increased by crippling work stoppages was prescribed.

Unfortunately, delays in attending to this first order of business in 1968 contributed to a continued instability in the economy and a very substantial decline in our trade surplus. However, the progress that has been made in recent months has laid the foundation for a much better national performance in the area in 1969 and years ahead, *if* the nation carries through with the program now in progress.

The Revenue and Expenditure Control Act, finally enacted in late June, established our commitment to fiscal restraint.

The Congress and the President will have to decide in the months ahead on fiscal policy for the period beginning July 1, 1969. This policy will require decisions on expenditures and taxes necessary to provide that degree of fiscal restraint which is a fundamental element in an adequate follow-through in the ongoing process of disinflation, restoration of our competitive position and provision of a healthy trade surplus. This fiscal policy, coupled with appropriate monetary policy by the Federal Reserve Board, will make possible the avoidance of the excessive demand that has contributed to the decline in our trade surplus. It will also enhance our competitive position by arresting inflation and enabling the economy to move back toward reasonable price stability, given accompanying voluntary restraint in wage-price decisions.

The Cabinet Committee on Price Stability, after consultation with business and labor leaders, including the President's Labor-Management Advisory Committee, is submitting a report on the progress made and the plans for future cooperative efforts on the wage-price front.

In 1968 we witnessed the adverse effects on our international trade position of the work stoppage in copper and the potential work stoppages in steel and

on the docks. These focused renewed attention on the need for both labor and management to recognize the implications of their actions and their positions on wage disputes and their relationship to the protection of our national interest in maintaining the strength of the dollar.

2. *Initiatives pursued in 1968 to assure fairness to U.S. trade in world markets should culminate in 1969 in cooperative action by the United States and our trading partners*

In 1969 further reduction of nontariff barriers and appropriate changes in the General Agreements on Tariff and Trade rules on border tax adjustments must be achieved. International trading rules and practices are established through multilateral consent and negotiated in the multilateral forum of the GATT. In early 1968 U.S. representatives inaugurated a determined effort to eliminate nontariff barriers, review agricultural trade, achieve improvements in the trading rules and minimize the disadvantages to our trade which arise from differences in the application of national tax systems to exports and imports.

The GATT Committee on Industrial Products has developed a catalogue of nontariff barriers to trade and is now turning to the removal of these restrictions. Similarly the Agriculture Committee of the GATT is conducting a general review of agricultural trade problems. In attempting to solve problems in these areas, we must be realistic in our objectives and timetable. On the other hand, we cannot be satisfied without real progress soon to eliminate the significant nontariff barriers. We must bear in mind that the Trade Expansion Act of 1962 does not permit the United States to compensate with trade concessions the removal by others of illegal nontariff barriers.

The GATT Working Party on Border Taxes must complete its task as early as possible next year. We believe there is a structural disadvantage to the United States, and to other predominantly direct-tax countries, which arises from the border tax adjustment system as presently permitted under the GATT rules. The lack of an overall limitation on border tax adjustments, the proliferation of the practice, and the unequal treatment prejudicial against one tax system as opposed to another are problems in the GATT rules which must be addressed.

The United States has also raised the issue of the provisions in the GATT rules which pertain to the process by which international payments imbalances are adjusted. Under the GATT, countries suffering temporary balance of payments difficulties may introduce short term trade restricting practices such as quotas but the GATT is silent on the responsibilities of surplus countries.

We have seen, in the month of November, two countries employ other measures which also facilitate the adjustment of their balance of payments position. Through the manipulation of border tax adjustments, both France and Germany are endeavoring to influence their trade accounts in a manner conducive to better overall payments equilibrium. This course of action was chosen as an alternative to a change in parity—an action which would have a permanent effect on trade. This experience should be examined to consider its lasting implications for the process by which a nation's international payments are brought into balance.

3. *The Department of Commerce should intensify efforts to expand commercial exports generally and in conjunction with foreign assistance, and the Agency for International Development should continue measures to assure additionality and to minimize substitution in foreign assistance*

The long term trade promotion program which you outlined in your New Year's Day Message should be pursued vigorously. These efforts have been helpful to date, and they will have to be reinforced. The recent recommendations of the National Export Expansion Committee provide suggestions for reinforcements. These should be considered.

The efforts of AID and other concerned agencies to minimize the balance of payments cost of bilateral economic assistance have been successful in keeping these costs to a minimum. The principles by which this is done are established. The implementation of these principles has now been under way for some time; and the regular, vigilant administration of these methods is what is required and is what we are receiving.

Some of the most important byproducts of economic assistance are the trading benefits arising from the development and growth of viable economies abroad. We

trade and prosper together. Our tied bilateral economic assistance, which transfers real resources has the effect of facilitating the introduction of American goods and services to these foreign markets. In distant areas, purchases of capital goods, often bought to last for a lifetime, provide a continuing introduction of the product names of our factories to foreign buyers.

In 1969 we must concentrate on developing followup sales after these early "calling cards" have been delivered. Industry, assisted, if need be, by Government, must expand upon the export opportunity created by our economic assistance. This will require a sustained and positive program.

The Commerce Department has cooperated closely with AID in seeking ways to maximize U.S. commercial exports following upon the foreign assistance program. In the area of publicity, Commerce provides information on AID business opportunities through a variety of media such as "International Commerce" and "Quarterly Summary of Future Construction Abroad."

In addition to information available through these publications, Commerce provides information on AID export opportunities and guidance on the procedures for selling under the AID programs directly to American businessmen through personal contacts. The Commerce Department also puts together annual U.S. trade and investment programs for approximately 60 countries of main commercial interest in the world. Specific informational, promotional, and policy activities to be carried out in support of the program objectives are delineated. For countries with AID Missions, the AID operations generally constitute an important factor in achieving progress toward the investment program objectives. Additionally, the Department of Commerce through its trade programs, commercial exhibits and trade missions actively assists the U.S. exporter.

4. *Consistent with our security commitments, the Nation in 1969 should continue to minimize its net military deficit by reducing these expenditures whenever conditions permit and by neutralizing them through cooperative action by our allies*

We should stand by the principles which you enunciated in the January 1 program:

"We cannot forego our essential commitments abroad, on which America's security and survival depend.

"Nevertheless, we must take every step to reduce their impact on our balance of payments without endangering our security."

As we look at our overall balance of payments position and prospects, it remains a key concept that the foreign exchange drain from U.S. defense expenditures outside our borders for mutual security is an extraordinary item in the balance of payments. It should be met by special governmental action—it does not result from normal economic developments; nor is it subject to normal economic management through fiscal, monetary and incomes policies.

We need to maintain existing programs and constantly seek new ways to reduce our defense expenditures abroad. The types of actions by the Defense Department to reduce net foreign exchange costs during the years 1961–67, as described in "Maintaining the Strength of the United States Dollar in A Strong Free World Economy," Tab B, U.S. Treasury Department, January 1968, and in the Supplemental Progress Report for 1968, must be constantly pursued.

We welcome the extensive cooperation from countries in the North Atlantic Treaty Organization and in other parts of the world during 1968 to minimize our military foreign exchange costs through:

—purchase in the United States of their defense needs; and

—investments in long term U.S. securities.

In 1969 we will want to continue cooperation and conclude new arrangements, with particular emphasis on NATO Europe. In the coming year, we will want to build on past experience in ways which:

—proceed from the NATO recognition of the principle that the solidarity of the Alliance can be strengthened by cooperation between members to alleviate burdens arising from balance of payments deficits resulting specifically from military expenditures for the collective defense;

—increase the emphasis on purchases in the United States to meet country needs for the improvements NATO has recently called for in country forces; and

—reduce reliance on investments in long term U.S. securities as a means for dealing with our foreign exchange costs resulting from defense expenditures out-

side our borders, since these investments do not provide the basis for a long term solution.

In other parts of the world, we should give particular attention to the Far East. Military expenditures related to Vietnam and the prospective longer term security situation in the region may be expected to continue a heavy drain on United States foreign exchange. We will be looking to countries in the region to continue and expand their cooperation with us to deal with this problem on a continuing basis. Active negotiations to this end should be a continuing responsibility of the Secretaries of State, Treasury, and Defense.

Of course, the principal opportunity to achieve actual reductions in our gross defense expenditures abroad, without damage to our long term mutual security interests, is most likely to occur in connection with progress in the negotiations looking to a peaceful settlement of the conflict in Southeast Asia.

Even before our substantial involvement in military operations in Vietnam in 1965, U.S. military expenditures in the major Far Eastern countries were considerable. The direct foreign exchange costs of these expenditures averaged about $700 million per year before 1965. They are currently running approximately $1.5 billion higher.

This heavy direct loss of dollars to and through East Asia must be reduced when the fighting stops.

Therefore, a high priority must be given to the problem of neutralizing, to the maximum possible extent, the balance of payments cost of our security forces in East Asia while the fighting continues, and reducing the gross cost when the fighting diminishes or ceases.

5. *The mandatory and temporary foreign direct investment program, as announced in modified form by the Secretary of Commerce on November 15, 1968, should be maintained*

The mandatory direct investment control program for 1968 has not interrupted the high, indeed unprecedented, level of total American investment abroad. It has had the intended effect of reducing capital outflows from this country by increasing the use of funds borrowed overseas for direct investment by U.S. affiliated enterprises.

Our base for future earnings continues to increase and the present balance of payments costs are maintained within tolerable limits. The private sector has for the most part understood this. The best way to keep the program temporary is to press ahead vigorously on all features of the balance of payments front.

There is little disagreement that this program should be temporary and terminated as soon as possible. It is the view of your Cabinet Committee that it is not possible to terminate the program in 1969 without running a grave risk that our progress toward balance of payments equilibrium would be reversed and a heavy deficit become a likely prospect. As stated earlier in the principles governing the formulation of the 1969 program, until the nation has a durable surplus or the assurance of long-term equilibrium, it would be unwise to abandon some of the temporary and less desirable measures that it has been forced to employ.

This has a special relevance to the Foreign Direct Investment Program as the following observations underscore:

First, overseas investments by American business (excluding Canada, which is exempt from the direct investment program) are projected to increase again in 1969, with plant and equipment expenditures reaching close to $8 billion—up from an estimated $7.5 billion this year, and up from $4.6 billion in 1964, the last year before the introduction of the voluntary program.

Second, in order to hold the balance of payments impact of such investment in 1968 to the $2.6 billion you targeted last January, it may be necessary for U.S. companies and their foreign affiliates to utilize between $2 billion and $2.5 billion of the proceeds of foreign borrowing in addition to foreign borrowing for day-to-day working capital requirements. To meet the new target for foreign direct investment of $2.9 billion in 1969, we project it may be necessary for business to utilize another $2 billion–$2.5 billion in foreign borrowing next year.

Third, growing restraint upon capital flows from the United States since the start of the voluntary program in February 1965 has resulted in a substantial, and to some extent abnormal level of foreign debt by U.S. companies and their foreign affiliates, as compared to what it might otherwise have been without the

foreign direct investment programs. We do not have any precise way to measure its size, but it could approach $5 billion by the end of this year.

Fourth, during the past 4 years, in cooperation with the capital programs, many U.S. companies have decreased their overseas liquidity through the reduction of intercompany accounts and the repatriation of earnings, and, as a result, are more active, albeit reluctant, borrowers for working capital purposes.

All of this suggests that termination of capital controls in 1969 could result in a sharp increase in capital outflows and retained earnings—it is difficult to estimate the precise amount for much will depend upon market conditions and other factors, but there is a potential exposure of as much as $3 billion–$4 billion. The outlook for 1969 does not permit taking the risk of that much additional direct investment hampering progress in our balance of payments program.

Basically, the 1969 Foreign Direct Investment Program will follow closely the format of this year's program. However, some additional leeway is needed (a) to provide additional flexibility for companies with limited or no overseas investment experience; (b) to make the Regulations more responsive to those companies whose investment quotas are unrealistically low in relation to the return flow of earnings from their direct investments; (c) to assure that the program does not unnecessarily inhibit the growth of intercompany exports of American goods and services to foreign affiliates; and (d) to enable the Office of Foreign Direct Investments to be more responsive to special industry problems and some of the inequities in the Regulations which have become apparent during 1968.

We recognize that just to maintain their existing overseas operations on a sound basis, companies must have the capability to retain abroad a certain percentage of their foreign earnings. Furthermore, retention of a portion of foreign earnings will be necessary to insure an orderly retirement of the growing debt being contracted abroad. We therefore recommend that the target level of direct investment be increased to insure that every company has, in 1969, an investment quota of at least 20 percent of its 1968 earnings from foreign direct investment. This change was announced on November 15.

Some adjustment in the target was also necessary to assure that U.S. companies have additional quotas to expand exports of goods and services through their foreign affiliates.

Further adjustments of the target were needed to make the Program more responsive to hardships arising from the application of the Regulations to special industries such as the international construction and transportation industries, whose operations and accounting procedures do not dovetail with the Regulations; to provide relief for companies whose ability to meet the repatriation requirements of the Regulations is restricted by law or lack of control; to encourage private investment of a developmental character in the less developed areas, and to provide companies with no or limited prior overseas investment experience with a somewhat higher level of permitted direct investment.

Finally, to enable companies to plan ahead and to insure that investment projects with important future balance of payments potential are not discouraged, the Office of Foreign Direct Investments evolved its incremental earnings formula, under which additional direct investment in future years is authorized on the basis of future incremental earnings.

6. *The Federal Reserve Voluntary Foreign Credit Restraint Program should be maintained with present ceilings on foreign lending from the United States, but in the coming year attention should be given to possible modifications to encourage further the promotion and financing of exports by the commercial banking system*

The Federal Reserve program has required a great deal of U.S. financial institutions and they have responded well. Since 1964, U.S. commercial banks have not increased the volume of U.S. credits to foreign borrowers, even though the foreign banking business has grown substantially in all other respects. In their international operations, U.S. banks have had to meet the demands of clients for foreign loans within their voluntary ceilings and through the extensive use of resources in foreign branches.

The prospects for 1969 do not permit any basic change in the need for restraint on foreign lending of U.S. banks and other U.S. financial institutions. Accordingly, the existing voluntary ceilings for foreign lending by these institutions should be continued for 1969.

During the coming year, attention should be given to the effect of the program on increasing U.S. receipts as well as on reducing U.S. capital outflows. Since 1964, annual exports from the United States have increased by about 32 percent. Financing to support the growth in exports has become available as banks have changed the composition of their portfolios of foreign credits in response to the voluntary program and to a lesser extent by the use of funds in foreign branches and by the expansion of the Export-Import Bank's direct lending. The Federal Reserve Board intends, in the light of developments in the United States and abroad, to review its Voluntary Foreign Credit Restraint program early in 1969 in order to determine whether additional flexibility for financing U.S. exports might usefully be provided in the program's guidelines.

7. *The Interest Equalization Tax, which expires July 31, 1969, should be extended with the existing authority to vary the rate from 1½ percent down to zero, depending on circumstances*

The size and efficiency of the American capital market necessitated the Interest Equalization Tax in 1963. This tax has served to facilitate greatly the expansion of the European capital market and to develop additional techniques for employing savings around the world in productive investments. Through preserving an exemption for lesser developed countries, the access they need for development assistance is assured. In 1967, Congress granted the President certain discretionary authority in order that the purpose of the legislation—which is to limit but not prevent access to the capital market from developed countries—is best served.

In 1969, this legislation will need to be extended. In order that we have available a method for phasing out this tax, the existing authority to vary the rate of the tax from zero to 1½ percent per annum should be retained.

8. *A 5-year program is needed to narrow the travel deficit through promotion of foreign travel in the United States by both public and private action*

As has been pointed out repeatedly to the public and to the appropriate committees of Congress, the trend of the contribution of travel to and from the United States to our balance of payments deficit is such that the United States cannot continue to ignore the problem.

It was for this reason that in your New Year's Day Message you sought to reduce the travel deficit by calling for voluntary action and appropriate legislation. In 1967 this deficit exceeded $2 billion. If the nation is to prevent the tourist deficit from continuing to rise and possibly exceed $4 billion by 1975 (as U.S. disposable income and the portion of it spent on foreign travel increases, and the new airplanes with larger capacities and greater speeds bring lower fares), the nation must begin to implement now a comprehensive long term program to increase rapidly the amount of foreign travel to this country.

The President's Commission, formed in 1967, has provided numerous suggestions worthy of attention, not only for immediate measures already taken in 1968, but for the longer term future.

Although final figures are not yet available, we must anticipate a continued large travel deficit in 1968. It might well have been larger but for the fact that many of the remedial measures recommended by your Commission were carried out by Government and voluntarily by the private sector.

The longer term measures recommended by your Commission to promote travel to the United States will require regular and adequate financing. The simple fact is that the United States has a smaller annual budget for promoting tourism than that of almost any other industrial country.

One way to finance an appropriate and effective travel promotion program would be to eliminate the exemption of international flights from the long existing 5 percent tax on airline tickets and to dedicate a portion of the proceeds to a special fund to be used and expended for travel promotion during the fiscal years 1970–74. There are, of course, other ways. Early congressional action is highly desirable.

We must not allow an increased tourist deficit to jeopardize progress in other areas of the balance of payments nor to necessitate the maintenance of temporary restrictive measures on capital flows, nor to handicap the United States in discharging its national security commitments outside the United States.

The Cabinet Committee on Balance of Payments believes that these policies will continue the very real gains already achieved under the Action Program

you announced last New Year's Day, will maintain the strength of the dollar, and will contribute to a strong free world economy. In the year ahead, these policies will help to preserve these gains and their contribution to a strong free world economy.

Faithfully yours,

HENRY H. FOWLER.

THE PRESIDENT,
The White House.

Exhibit 39.—Statement by Secretary Kennedy, March 4, 1969, before the House Committee on Banking and Currency, on replenishment of the resources of the International Development Association

I am especially pleased that the purpose of my first appearance before your committee is to give my full support to H.R. 33.

This bill, introduced by the Chairman of the Committee and the Chairman of the International Finance Subcommittee, would authorize the U.S. participation in replenishing the resources of the International Development Association (IDA), an affiliate of the World Bank.

After carefully reviewing the proposal for replenishing IDA's resources, I am strongly convinced of its merits. I am equally strongly convinced of the need to act promptly. The United States should join in the action already taken by others so that this second replenishment can be put promptly into effect.

The committee is well acquainted with the bill before you to increase IDA's resources. Last year it examined and took action on an identical bill. Accordingly, I propose in my opening statement to comment on only five points.

First, there is a clear and urgent need for an increase in IDA's resources to finance development.—President Eisenhower stated, when IDA was first proposed in 1958, that "the well-being of the free world is vitally affected by the progress of the nations in the less developed area."

Despite the development that has been achieved in the decade since then, too many nations—many recently established—still fall far short of a satisfactory rate of progress, and too much of mankind still lives in poverty and despair.

I would not suggest that IDA alone, even with greatly increased resources, can resolve all of these problems. But IDA has a unique role to play in a concerted development effort. IDA concentrates its efforts on the poorer of the developing nations and provides funds on repayment terms suited to the financial condition of these nations. It is making, and can continue to make, a critical contribution toward economic advancement. It represents a unique multilateral effort to bring the experience, expertise and practice of the World Bank into areas of lending that would not be financially appropriate for the Bank itself.

President Nixon has said that "America's basic self-interest in world development stems from the brutal fact that there can be no sanctuary for the rich in a world of the starving." Presidents, members of Congress, and leaders of both parties have long recognized that our national interest is served by joining together with others in sensible efforts to help the developing nations along the road to progress. IDA embodies this kind of sensible effort.

Second, IDA is an effective instrument for sharing the costs of worldwide development assistance among donor countries.—We seek to encourage other developed nations to increase their assistance to the "have not" nations. As the other industrial countries gain in financial strength, it is appropriate that they assume a greater share of the burden for providing development finance. IDA has been, and can continue to be, a most important channel for bringing about this result.

The initiation of IDA in 1960 was a major step in the concept of sharing the burden of providing concessional development financing—a burden which previously had rested overwhelmingly on the shoulders of the United States alone. This commitment to more equitable sharing of the burden was extended by the decision in 1964 to increase sharply the level of IDA funding under the so-called first replenishment of IDA's resources. The present proposal for a second replenishment would again increase the level of IDA funding and again represent a substantial step towards increased burden-sharing.

IDA expanded from a level of contributions from the economically advanced countries of about $150 million per year in the first 5 years of its life, to a level

of about $250 million per year in the subsequent 3 years. We now look forward to a level of $400 million per year under the present proposal. As the level of IDA's operations has increased, the U.S. percentage share has gradually been reduced. Our share of the total supplied by the developed countries declined from over 43 percent when IDA was established to 40 percent under the present arrangement.

There is a compelling case to support U.S. participation on grounds of our financial interest alone. IDA provides the machinery for ensuring that other developed countries bear a larger proportion of the financial responsibility for development assistance than has been possible outside multilateral channels. In IDA they put up $3 for every $2 the United States puts up, and this does not count any additional money other countries add to IDA over and above the replenishment agreements or the amounts which the World Bank is able to transfer to IDA each year out of its current net earnings.

Moreover, the uniform repayment terms provided by IDA assure all donor countries are providing assistance on the same concessionary terms. Within the IDA framework there is no problem of funding from some countries being lent out on harder repayment terms than others.

Third, IDA brings the economic and political advantages of the multilateral approach and the proven value of IBRD administration.—This committee appreciates the merits of the multilateral approach to development financing. To sum up these advantages, they include the opportunities for burden-sharing both with respect to amounts and concessional repayment terms; the objectivity which the international institutions enjoy; the experience these institutions have; and the leadership role they can play in the development effort.

We can be confident that IDA, as an affiliate of the World Bank, under the same President, using the same expert management and staff, and guided by the same Board of Directors and Governors, will use its funds wisely. IDA credits are extended under the same rigorous criteria and with the same careful scrutiny which the World Bank applies to its own loans. IDA credits and World Bank loans do not differ with respect to careful loan appraisal. Moreover, both require amortization in hard currencies. But IDA does enable funds to flow where substantially longer periods of time are needed for repayment and where only a low service charge, rather than market interest rates, can be paid. These IDA terms are essential to prevent a rapidly mounting debt burden from obstructing the development progress of IDA's borrowers. IDA credits are extended only to those countries at the low end of the range in terms of per capita income. Many IDA borrowers already face severe debt servicing problems in the years ahead. It just would not make financial sense to require harder terms for these countries. Nor would it meet the objectives for which IDA was established.

Fourth, the proposal contains safeguards for the U.S. balance of payments.—I could not under present conditions ignore the question of possible impact on the U.S. balance of payments. I am fully satisfied that the proposed arrangements are adequate. They emerged from what I understand to have been very careful negotiations.

The proposal for IDA's second replenishment is structured so that if our balance of payments problems should persist, we need suffer no serious balance of payments consequences from our contribution. There is an absolute assurance in the agreement up to 1972 that if required by our balance of payments situation, we would pay over in actual cash only that portion of our share to pay for IDA procurement in the United States. Moreover, the agreement provides that this arrangement will continue after that date until other contributors' funds that make this arrangement possible are exhausted.

Looking at it another way, the balance of payments safeguard provides that the U.S. contribution to IDA, to the extent required for other than U.S. procurement, will be postponed. Other contributing countries accelerate their contributions during such periods. There will be no move away from the World Bank or IDA's traditional system of international competitive bidding, a point made amply clear by the President of the World Bank and by the Board of Directors.

The same mechanism that safeguards our balance of payments also has the effect of reducing the budgetary cost of our contribution while our balance of payments problem continues. Briefly, while our pledge is $160 million a year for 3 years, actual cash is called only when IDA needs funds to meet actual disbursements of the credits it extends. Calls are on all contributors *pro rata*. Because of the lag between credit commitments and disbursements, calls for cash will be only a fraction of the pledge for some time. This is even further

reduced for the United States because we would be called on for even less than our *pro rata* share should we continue in balance of payments difficulty. A detailed explanation of these balance of payments arrangements is contained in the report submitted by the National Advisory Council last year.

International action depends on U.S. action

This brings me to my final point: The responsibility to act so that the 18-nation agreement to contribute to the second replenishment can come into effect now rests squarely with the United States.

Two steps are required for this IDA replenishment. IDA member governments must approve of the Board of Governors second replenishment resolution. This was done in 1968 by the required two-thirds vote of the 102 countries that are members of IDA. Only the United States and 10 noncontributing countries have failed so far to vote for the resolution approving the replenishment agreement. The U.S. Governor could not vote because Congress did not complete action on it last year.

The second step to put the replenishment agreement into effect occurs only when 12 contributing countries having contributions aggregating $950 million (of the $1.2 billion total) have signified their agreement. To date, 11 countries with contributions totaling $472 million have taken all necessary steps to fulfill their part of the agreement.

As soon as the United States agrees, therefore, the second replenishment will become effective. Without the U.S. contribution the replenishment cannot become effective. It is expected that soon after we act the other six countries which have not acted on their pledges will follow suit.

In view of the difficult situation faced by IDA because of the delay in the second replenishment, a number of contributing countries are arranging to make advance contributions against their second replenishment pledges. This is a sign of international confidence in IDA and is permitting some continuity in IDA lending. If the United States fails to take affirmative action, it would be a most unfortunate setback, not only to IDA, but also to the cooperative concept of multilateral development assistance.

Appropriations required

The legislation would authorize the appropriation, without fiscal year limitation, of $480 million for our contribution, that amount to remain available until expended. The first of three equal annual installments would be sought as a fiscal year 1969 supplemental item. Two further installments would be paid to IDA in fiscal years 1970 and 1971. Each installment would be in the form of noninterest-bearing letters of credit, to be drawn on by IDA at a later date as cash needs for disbursement arise. These letters of credit entail no budgetary expenditure until actual drawings on them are made.

Conclusion

I testify here today as a representative of President Nixon, to assure you that IDA has his full approval and support. As you know, IDA took shape during the Administration of President Eisenhower, under the guidance of one of my predecessors, Secretary Robert Anderson. Subsequently, it developed further and expanded its operations with the support of President Kennedy and President Johnson. I am sure that it is because of the advantages I have mentioned that IDA has enjoyed a wide measure of support. The creation of IDA was chiefly one result of initiatives and actions of the U.S. Congress. It would be tragic if it should also end in these chambers for want of the support it deserves.

I urge this committee again to give its endorsement to legislation providing for our fair share of the second IDA replenishment and to carry this legislation promptly through to final passage.

Exhibit 40.—Statement by President Nixon, April 4, 1969, on the balance of payments

In my fiscal message to the Congress on March 26, I called for a strong budget surplus and monetary restraint to curb an inflation that has been allowed to run into its fourth year. This is fundamental economics, and I pointed out that we intend to deal with fundamentals.

Similarly, the problem of regaining equilibrium in the U.S. balance of payments cannot be solved with expedients that postpone the problem to another year. We shall stop treating symptoms and start treating causes, and we shall find our solutions in the framework of freer trade and payments.

Fundamental economics call for:

—creating the conditions that make it possible to rebuild our trade surplus.

—ultimate dismantling of the network of direct controls which may seem useful in the short run but are self-defeating in the long run.

The U.S. balance of payments showed a surplus last year. But this surplus included an unusually high and probably unsustainable capital inflow. Our trade surplus, which reached a peak of $6.5 billion in the mid-sixties, declined sharply and all but disappeared.

That trade surplus must be rebuilt, and it can only be rebuilt by restoring stable and noninflationary economic growth to the U.S. economy. Inflation has drawn in a flood of imports while it has diminished our competitiveness in world markets and thus dampened our export expansion.

This is why our program of fiscal and monetary restraint is as necessary for our external trade as for restoring order in our domestic economy.

Building on the solid base of a healthy, noninflationary economy—a base that only the fundamentals of fiscal and monetary restraint now can restore—we are planning a sustained effort in several key areas:

—In *export expansion*, we have tentatively set an export goal of $50 billion to be achieved by 1973. This compares with 1968 exports of about $34 billion. This is primarily the task of American private enterprise, but Government must help to coordinate the effort and offer assistance and encouragement. We must also call on the productivity and ingenuity of American industry to meet the competitive challenge of imported goods.

—In *trade policies*, we will be working with our major trading partners abroad to insure that our products receive a fair competitive reception.

—In *defense activities*, we will also work with our friends abroad to insure that the balance of payments burden of providing for the common defense is shared fairly.

—In *travel*, we will encourage more foreign travel to the United States. Here, as in other areas, we will be relying heavily on the support of the private community. We seek no restrictions on the American tourist's freedom to travel.

—In *international investment*, we will review our own regulations and tax policy to assure that foreign investment in the United States is not discouraged; for example, we should move now to eliminate from our laws the prospective taxation of interest on foreign-held bank deposits.

—In the *international financial* area, we will be continuing to work with our friends abroad to strengthen and improve the international monetary system. An expanding world economy will require growing levels of trade with adequate levels of reserves, and effective methods by which countries can adjust their payments imbalances. In particular, we look forward to ratification by the International Monetary Fund members of the Special Drawing Rights plan and its early activation.

I am confident that measures in these areas, coupled with the cooling of the economy through fiscal-monetary restraint, will move us in an orderly manner toward true balance-of-payments equilibrium. Accordingly, I have begun, gradually but purposefully, to dismantle the direct controls which only mask the underlying problem.

Specifically:

First, I have today signed an Executive order reducing the effective rate of the interest equalization tax from 1¼ percent to ¾ of 1 percent. This measure was designed to close a large gap—which has now narrowed—between foreign and domestic interest rates. I shall, however, request the Congress to extend the President's discretionary authority under the interest equalization tax for 18 months beyond its scheduled expiration in July.

Second, I have approved a recommendation to relax somewhat the Foreign Direct Investment Program of the Department of Commerce. This means that most firms investing abroad will have substantially more freedom in planning these investments.

Third, I have been informed by Chairman Martin of modifications in the Federal Reserve Program which will provide more flexibility for commercial banks, particularly smaller and medium-sized banks, to finance U.S. exports.

These are prudent and limited steps that recognize the realities of our present balance of payments situation.

The distortions created by more than three years of inflation cannot be corrected overnight. Nor can the dislocations resulting from a decade of balance-of-payments deficits be corrected in a short time.

But the time for restoring the basis of our prosperity is long overdue. We shall continually direct America's economic policy, both foreign and domestic, at correcting the root causes of our problems, rather than covering them over with a patchwork quilt of controls.

By facing up to fundamental economic needs, the inflationary tide and the trade tide can be turned and the U.S. dollar continued strong and secure.

Executive Order

MODIFYING RATES OF INTEREST EQUALIZATION TAX

WHEREAS, I have determined that the rates of tax prescribed under section 1 of Executive Order No. 11368, dated August 28, 1967, with respect to acquisitions of stocks of foreign issuers and debt obligations of foreign obligors made after August 29, 1967, are higher than the rates of tax necessary to limit the acquisitions by United States persons of stocks of foreign issuers and debt obligations of foreign obligors within a range consistent with the balance-of-payments objectives of the United States.

NOW, THEREFORE, by virtue of the authority vested in me by section 4911 (b)(2) of the Internal Revenue Code of 1954, and as President of the United States, it is hereby ordered as follows:

SECTION 1. Section 1 of Executive Order No. 11368, dated August 28, 1967, is hereby amended to read as follows:

"SECTION 1. *Rates of Tax.*

"(a) *Rates applicable to acquisitions of stock.* The tax imposed by section 4911 of the Internal Revenue Code of 1954 on the acquisition of stock shall be equal to 11.25 percent of the actual value of the stock.

"(b) *Rates applicable to acquisitions of debt obligations.* The tax imposed by section 4911 of the Internal Revenue Code of 1954 on the acquisition of a debt obligation shall be equal to a percentage of the actual value of the debt obligation measured by the period remaining to its maturity and determined in accordance with the following:

"If the period remaining to maturity is:	*The tax, as a percentage of actual value, is:*
At least 1 year, but less than 1¼ years	0.79 percent
At least 1¼ years, but less than 1½ years	0.98 percent
At least 1½ years, but less than 1¾ years	1.13 percent
At least 1¾ years, but less than 2¼ years	1.39 percent
At least 2¼ years, but less than 2¾ years	1.73 percent
At least 2¾ years, but less than 3½ years	2.06 percent
At least 3½ years, but less than 4½ years	2.66 percent
At least 4½ years, but less than 5½ years	3.26 percent
At least 5½ years, but less than 6½ years	3.83 percent
At least 6½ years, but less than 7½ years	4.35 percent
At least 7½ years, but less than 8½ years	4.88 percent
At least 8½ years, but less than 9½ years	5.33 percent
At least 9½ years, but less than 10½ years	5.78 percent
At least 10½ years, but less than 11½ years	6.23 percent
At least 11½ years, but less than 13½ years	6.83 percent
At least 13½ years, but less than 16½ years	7.73 percent
At least 16½ years, but less than 18½ years	8.51 percent
At least 18½ years, but less than 21½ years	9.19 percent
At least 21½ years, but less than 23½ years	9.79 percent
At least 23½ years, but less than 26½ years	10.31 percent
At least 26½ years, but less than 28½ years	10.76 percent
28½ years or more	11.25 percent"

SEC. 2. With respect to acquisitions of stock of foreign issuers and debt obligations of foreign obligors made under the rules of a national securities exchange registered with the Securities and Exchange Commission or under

the rules of the National Association of Securities Dealers, Inc., this order shall be effective for acquisitions made after April 4, 1969, but only if the trade-date was after April 4, 1969. In the case of other acquisitions of stock of foreign issuers and debt obligations of foreign obligors, this order shall be effective for acquisitions made after April 4, 1969.

/s/ RICHARD M. NIXON.

THE WHITE HOUSE,
April 3, 1969.

Exhibit 41.—Remarks by Secretary Kennedy as Governor for the United States, April 11, 1969, at the 2d annual meeting of the Asian Development Bank, Sydney, Australia

I am honored to meet with you today as a new member of the Board of the Asian Development Bank and as the representative of the recently inaugurated President of my country, Richard M. Nixon.

President Nixon has asked me to extend his warmest greetings to the members of this distinguished group—to express once again his deep friendship for the nations and the peoples of Asia—and to affirm his support for the Asian Development Bank as an institution contributing to the economic development of Asia.

I welcome the opportunity to attend this second annual meeting of the Board of Governors for two reasons:

First, the pleasure of visiting Australia, this magnificent city, Sydney, and sharing with all of you the warm and gracious hospitality of the government and the people of Australia.

Second, the opportunity to become acquainted with each of the representatives gathered here, to learn more about the Bank and its plans for the future, and to assist the officers of the Bank and my fellow Governors in guiding its progress.

It remains true, today, as it has throughout history, that all too often nations are bitterly divided by conflict. My own country and others represented here are now engaged in such a conflict in Vietnam. That war exacts heavy claims on our energies and our resources. It emphasizes all that divides men rather than the common human aspirations that link them together.

As a member of the new U.S. Administration, I want to assure you that President Nixon has no higher goal than to bring an early, lasting, and just peace to Vietnam. I know all of you share that hope and will contribute in every way that you can to making it a reality.

Institutions such as the Asian Development Bank point the way to even greater cooperation among nations in the future. The creation of international economic institutions with nations working together to promote a better life for all of their citizens is a unique and inspiring step in the history of man. How different it is from the preceding centuries, when nations conceived of their economic interests only in the most narrow and selfish terms. Because of our experience in this Bank and others like it, I am hopeful that one day we shall be able to work equally well together in settling our political differences.

Meanwhile, the business of economic development must go on. That is the task to which we address ourselves this week.

Growth and progress most certainly will be advanced if our international monetary system is strong and responsive to the growing needs of the future. It was to provide this strength that the Board of Governors of the International Monetary Fund approved the amendment that establishes the Special Drawing Rights facility. My Government would like to see it activated this year. I am gratified that so many of the regional members of the Asian Development Bank have taken the necessary steps to ratify the amendment and to indicate their readiness to participate in the Special Drawing Rights facility. More than 40 countries holding more than 60 percent of the votes in the Fund have now ratified the amendment. It will not become effective until 67 member countries with 80 percent of the total voting power have completed the process of ratification. I hope that those members who have not yet acted will soon complete the necessary procedures that will enable them to join in this mutual undertaking.

The new Special Drawing Rights facility, which should be activitated this year, will serve the developing, as well as the developed countries. It will directly add to monetary reserves in proportion to IMF quotas. Moreover, it will

have an important additional advantage as a major factor in facilitating a high level of world trade and investment.

My Government is firmly devoted to the cause of Asian economic development, which will help to fulfill the shared aspirations of this region. It follows, then, that we are also firmly devoted to strong support of the Asian Development Bank. As you know, my country joined wholeheartedly in the planning and effort that made the Bank a reality. I am most encouraged by the accomplishments of the Bank in its first 2 years.

I need hardly remind this audience of the Bank's impressive beginnings:

—A well developed organization

—A staff distinguished both by professional competence and broad regional experience, whose accomplishments attest to the sound and effective leadership of President Watanabe

—A solid record of 11 loans totaling $66 million.

This admittedly condensed list of achievements barely covers the Bank's successful efforts. The Bank should also be justly proud of the priority attention it has devoted to such basic fields as agriculture and its growing concern with increasing productivity and creating new jobs. The Bank has enlisted the talent and initiative of private enterprise through its loans to development banks in Pakistan, the Philippines, and Thailand for loans to private borrowers.

As these loans suggest, development in this vast region can never be accomplished through intergovernmental action alone. Truly, we are building an institution capable of assuming greater responsibilities for advancing Asian economic development. This is in no small part due to the fact that the Bank has earned the confidence of lenders and contributors as a sound and thoroughly responsible financial institution. But it does not end there. There is growing appreciation by the peoples of Asia that the Bank offers an imaginative channel to bring human and economic resources to bear on helping them achieve a better life.

The future of the multilateral approach to development financing will be rewarding for Asia and for the entire world. It is increasingly recognized that all countries share the responsibility for overcoming the poverty, hunger and despair that is the daily fare of too many of our fellow men.

Despite the recognized advantages of the multilateral approach, my Government believes that, in some cases, there is no substitute for bilateral assistance. At the same time, we place a high value on multilateral assistance and strongly encourage efforts by the richer nations to help the developing areas realize the aspirations of their peoples. I am confident, therefore, that interest in multilateral aid will help to stimulate strong expansion of the Asian Bank.

The creation of the Special Funds envisaged by the Bank's founders and provided for in the charter is of keen interest to all of us. Already, the governments of Canada, Denmark, and Japan have agreed on the use of their contributions.

As for my own country, President Nixon decided very early in his Administration to reexamine all U.S. foreign assistance, to review what has been done, and to determine our future course. At the outset of that review, we had for ratification and funding a complete multilateral agreement for a $2 billion replenishment of the resources of the International Development Association. The new Administration in Washington has reaffirmed its intention to participate in this replenishment and we hope to obtain the necessary legislative authorization for the U.S. contribution.

The Bank's request that donor countries contribute to the Special Funds is now an active part of our review. I welcome the opportunity provided by this Second Annual Meeting to learn more about these Special Funds so that this experience can be reflected in my recommendations to the President.

Let me say on behalf of the United States that we fully support the need for the Special Funds. We are convinced that multilateral institutions should be able to provide concessional as well as ordinary financing. And that the Special Funds—given strong and shared support by the member nations—can be a vitally important supplement to the Bank's other lending facilities. When we return to Washington, we intend to formulate a proposal for our contribution to the Special Funds to be submitted this legislative year.

The preoccupation of this meeting is with development of this region through multilateral assistance. Asia's economic needs are great. The available financial resources are always less than we would wish. However, through cooperative efforts we can achieve a very great deal.

Moreover, the habits and the policies we are establishing now will assure that we can move ahead with renewed purpose to take constructive action as fresh opportunities to advance the economic and social well-being of Asia. That will surely emerge once the just peace in Vietnam for which we all so earnestly pray is finally achieved.

Exhibit 42.—Statement by Secretary Kennedy as Governor for the United States, April 22, 1969, at the 10th annual meeting of the Inter-American Bank, Guatemala City, Guatemala

I am delighted to meet with you today as new United States Governor of the Inter-American Development Bank, and as the representative of our recently inaugurated President, Richard M. Nixon.

I am saddened—as are all of you—by the untimely passing of Guatemala's Foreign Minister, the President of the U.N. General Assembly, Dr. Emilio Arenales Catalan.

Dr. Arenales was a distinguished leader of Guatemala, of our hemisphere, and of the entire world community. His death deprives everyone, everywhere, of a devoted and tireless worker in the cause of world peace.

Just prior to leaving Washington, I received a letter from President Nixon, who has a deep, personal interest in the work of the Inter-American Bank.

With your permission, I would like to read it to you.

"The forthcoming Guatemala City meeting of the Board of Governors of the Inter-American Development Bank will be the first such meeting you will attend as United States Governor. It is also the first such meeting since I have become President of the United States. I would, accordingly, appreciate it if you would convey the following personal message to the Governors from me:

"It is a pleasure for me to send my greetings to this annual gathering of the Governors of the Inter-American Development Bank. In its 10 years the Bank has come to play a highly constructive role in Latin American development.

"The positive effects of the Bank's lending activities can be seen throughout Latin America. As the resources available to the Bank grow, I am confident that the Bank will make an increasingly vigorous and effective contribution to the economic and social development of the hemisphere.

"The Inter-American Development Bank stands as an outstanding example of multilateral financial cooperation among the nations of the Americas. I want to convey to you my best wishes for continued success."

I join wholeheartedly in the President's expression of confidence and support for the Bank. I am familiar with its important contributions to hemispheric development and its great potential for the future. I look forward to assisting the officers of the Bank and my fellow governors in guiding its progress.

I would like to organize my remarks today around a relatively few points that seem important to me as one who assumes his duties as a member of this board after an extended period as a commercial banker. In summary, these points are:

—First, the multilateral banking approach to development, as exemplified by the Inter-American Bank, is sound and deserves further emphasis. I underscore banking here, with the emphasis on high standards and economic performance by borrowing countries that that term implies.

—Second, the economic development that the Bank seeks to foster cannot be achieved in Latin America unless inflation is contained—nor can the United States attain its economic objectives if inflation is unchecked.

—Third, a climate that permits private enterprise to flourish, that encourages both domestic and foreign private investment, is essential for balanced economic growth.

—And finally, development can succeed only within the framework of a smoothly functioning world trade and payments system. Prompt action to put into effect the new Special Drawing Rights facility of the International Monetary Fund is essential in this regard.

Let me now expand on each of these points in turn.

The decade since the agreement establishing the Bank was offered for signature has been marked by ever-closer cooperation among nations to help developing areas achieve their legitimate aspirations. The Inter-American Bank exemplifies this willingness of nations to work together to promote a better life for all of their citizens. The Bank not only has served well the mutual interests

of the Americas—it has also been a model for institutions serving the needs of other developing regions.

I returned only a few days ago from Sydney, Australia, where I was privileged to participate in the second annual meeting of the Asian Development Bank, which has made significant progress since its founding in 1966. As you know, the progress of the Asian Bank has been aided by expertise and experience contributed by officials and staff of the Inter-American Bank.

The multilateral approach to development financing—both worldwide and through regional banks— offers great hope for the future. Through this approach, nations large and small, rich and poor, can work together effectively to overcome the poverty, hunger, and despair that afflicts too many of our fellow men.

It follows, then, that my Government places a high value on multilateral assistance and encourages its increased use by the economically advanced nations.

At the same time, however, we recognize that in some cases there can be no substitute for bilateral assistance, which provides an important direct link between nations—thereby promoting a greater understanding of one another's problems and a helpful exchange of mutually useful knowledge.

In reviewing the progress of the Inter-American Bank—including the accomplishments discussed in the annual report for last year—I have been particularly impressed by two points:

—First, the growing ability of the Bank to tap varied sources of capital.

—Second, the success of the Bank's efforts to attract funds from advanced nations other than the United States.

Such diversification of the Bank's sources of funds is important in mobilizing the maximum possible resources for development.

In addition—and I say this with complete candor—the Bank's capacity to tap funds from a variety of sources has reduced international demands on the hard-pressed U.S. capital markets at a time when my country is making a determined effort to solve its balance of payments problem.

I can assure you that this development is welcome indeed.

The steady progress of the Bank since 1959 is a tribute to its leadership. Dr. Felipe Herrera has served with distinction as President of the Bank since its inception. He has given generously of his wisdom, energy and talents, and the Bank, its member countries, and our entire hemisphere, are indebted to him for his outstanding service.

We all recognize that the popular concept of a financial institution is frequently distorted. Are we a cold, impersonal entity?

Not at all!

I think the wisdom of the Bank's leadership is reflected in its deep-rooted concern for the most important element in the development of a nation: its people. Through carefully selected investments in the economic and social fields, the Bank strengthens the ability of the peoples of the Americas to contribute more productively to the growth and prosperity of the hemisphere. Thus, it helps to build the essential human base on which economic progress depends.

The continuing efforts by the Bank to strengthen its administrative procedures also demonstrate the foresight of its leadership. These timely moves—among which I include the procedure established last year for systematic review and appraisal of all aspects of operations—will increase both the effectiveness and efficiency of operations.

I would like at this point to suggest that the Bank would benefit by giving greater weight to the economic performance of borrowing countries. Borrowers would find it in their own best interest to seek the Bank's objective appraisal of their economic plans and progress.

Similarly, I don't think it gratuitous to suggest that the Bank should regard such rigorous appraisals as one of its essential functions.

I am certain that no one in this room today doubts that a very crucial question for the Bank is simply this: are our member nations taking adequate steps to avoid or to curb inflation?

The countries of our hemisphere have learned the hard way that inflation, if left unchecked, is a vicious enemy of development and wildly dissipates its benefits.

The other side of the coin is, of course, the fact that the achievement and maintenance of price stability promotes economic justice and sound and sustainable growth.

In establishing goals for our national economies, each of us must be concerned with the same essential elements—no matter what the size of our country or its stage of economic development. These key elements are, of course:

—a satisfactory rate of economic growth.

—reasonable price stability.

—reasonably full employment.

—equilibrium in the balance of payments.

And, Gentlemen, lest you think that I'm seeking to lecture, without regard for my own country's problems, let me say that although the United States continues to enjoy rapid economic growth, we still face the critical problems of inflation and balance of payments deficits.

I would be less than honest if I did not say that unless we in the United States overcome these problems, all of our other economic objectives will be endangered.

However, let me assure you, my fellow Governors, that the United States is determined to solve the problem of inflation. And, if we solve that vexing problem, we will also be well on the way to a solution of our international payments imbalance.

President Nixon and his entire Administration are firmly committed to taking effective action to check inflation and to return our economy to the path of reasonable price stability. We intend to achieve this goal through general economic restraints that are fully compatible with the maintenance of a high level of employment and our system of free, competitive private enterprise. Here, I want to add—perhaps gratuitously—that private enterprise is the dynamic element in our economy. Any actions that would weaken it would be as dangerous to our future as would be continued inflation.

Historically, Latin American governments have wisely recognized that a flourishing private sector is vital to overall national development. Happily, foreign private investors are actively seeking to harmonize their objectives with the national goals and basic concepts of their host countries—particularly with respect to the fields they seek to enter, to active recruitment of local managerial skills, to association with local capital, and to good corporate citizenship in general.

Latin America's industrial sector has been growing faster than Latin America's gross national product as a whole. This reflects many factors:

—Changed investor attitudes.

—New opportunities presented by economic integration arrangements.

—The relaxation of financial controls made possible by more stable conditions in a number of countries.

—The increased ability of private enterprise to draw on domestic sources of capital.

—And the provision by foreign investors of financial resources, advanced technology, and established organizations.

Private enterprise, both domestic and foreign, has demonstrated its ability to stimulate increased economic activity in Latin America.

I believe that those Latin American officials who establish domestic policy should continually seek to improve the climate for private enterprise, so that it can add to its already significant accomplishments.

May I add that this search for a better climate applies also to those officials who are concerned with the international flow of private capital.

One very important way in which Latin American governments can help to facilitate international flows of capital for trade and investment is by acting promptly to ratify the agreement on Special Drawing Rights of the International Monetary Fund.

The new Special Drawing Rights facility—which should be activated this year—will serve the developing, as well as the developed countries. It will directly add to monetary reserves in proportion to IMF quotas, and will provide the liquidity needed for growing trade and investment.

We should all be gratified that 11 of the members of the Inter-American Bank have taken the necessary steps to ratify the amendment. Some 45 countries, holding more than 60 percent of the votes in the Fund, have completed ratification. However, the amendment requires approval by 67 member countries, holding 80 percent of the total voting power. Since the SDR facility cannot be activated until countries representing at least 75 percent of the Fund's quotas indicate their readiness to participate, I hope that those Latin American nations which have not yet completed both steps will do so promptly.

In closing, let me assure my associates on the Board of Governors that the United States will continue to give its strong support to the objectives of the Inter-American Development Bank.

May I also say that we are prepared to listen—to look—and to learn.

We want to hear your views as to what you want to do for yourselves—and your beliefs about what we can do together.

We earnestly seek your advice and solicit your assistance in finding solutions for our mutual problems.

As President Nixon has said, we seek "a new era of cooperation, of consultation—but, most important—of progress, for all the members of our great American family."

Thank you.

Exhibit 43.—Remarks by Under Secretary Barr, October 11, 1968, at the 38th annual Bank Management Conference of the New England Council, Boston, Massachusetts, on how foreign investors and bankers look at the United States

In July of this year I read a story in the "Wall Street Journal" which described a European-born New York couple who had suddenly become terribly concerned about economic conditions in the United States. This couple had managed to save $10,000, and they decided that the safest thing to do was to take their money out of their bank account in the United States and invest it in Europe.

At that particular time in July we had only fragmentary statistical data on the second quarter balance of payments, but I had enough to tell me that this couple was in the classical position of the odd-lot trader—they were swimming against the stream. While they were moving their funds out of the United States, there was a tremendous inflow all over the world into our security markets, into our real estate, and into our banks. In other words, the view of the United States that was held by this New York couple was not shared by the rest of the world.

It was not until August that we had complete data on the balance of payments for the first half of 1968, and then the evidence was quite clear. As you all know, for the second quarter of 1968 our trade surplus was minute, but it was offset by a huge flood of capital that poured into this country. Although I shall not indulge in the luxury of predicting, I am led to believe that this flow of capital probably is continuing through the third quarter of the year.

It is never easy to put one's finger on the precise reasons why capital moves from country to country. However, last week we had a magnificent opportunity to conduct our own private opinion poll among the distinguished men and women who were delegates or guests at the latest of the annual meetings of the International Monetary Fund and the World Bank, held in Washington. There were 111 nations represented, and Secretary Fowler, Under Secretary Deming, Assistant Secretary Petty, or I talked to representatives of all or nearly all of them at one time or another. The conversations at these meetings among officials of the Central Banks and Finance Ministries of various nations always reminds me of the song, "How Are Things in Glocca Morra?" If you would substitute the exotic names of Kabul, Kuala Lumpur, Abidjan, and Caracas for the equally exotic words Glocca Morra, then the opening words of the conversation would follow precisely the lines of the song. We, being Americans, and sharing the somewhat masochistic traits of all Americans, were never content to leave it at this point. We would inevitably ask, "What do you think about the United States?" "How do you account for this enormous inflow of capital that we have been receiving during the past 6 months?" The answers we received, of course, varied from country to country, but they followed a remarkably similar pattern.

The responses that I am going to detail for you today were gleaned from many sources, but I will ascribe them to a person whom I will call "Old Composite." "Old Composite" represents the views of Swiss bankers, German manufacturers, Dutch shippers, Malaysian rubber planters, Argentine cattle barons, and the Middle East oil sheiks, to name just a few. When queried on the specific question of why we were having this huge inflow of capital into the United States, "Old Composite's" answers would tend to be along these lines:

First of all, "Old Composite" would argue that the United States was one of the few really secure places in the world—and he means physical security. The disturbances in France, and the invasion of Czechoslovakia, sent a pronounced tremor through the world investment community. Investors all over the world

came to the sudden conclusion that the world was not quite as safe as they had thought. When they came to this conclusion, they also decided to increase the percentage of portfolio investments which they held in America.

Although there have been occasions when I have become restless at the necessity for getting up $1.6 billion per week for the Department of Defense, I must admit that this investment seems to have paid off handsomely in recent months. But I must also state, with some sadness, that these decisions reflected not only confidence in the United States but a deep and serious concern over the collective security arrangements for Europe and the rest of the world.

Second, "Old Composite" mentions a fact that should be obvious to most of us, but which we often tend to overlook—the fact that on the continent of North America, the United States, Canada, and Mexico seem to live in peace and understanding with each other. This may come as a bit of a shock to those of us who engage in the sometimes vigorous discussions among these three nations as we work to keep an economy moving on this continent despite the political boundaries bisecting the economy on the north and on the south. Whatever the reaction, I can tell you that we in the Treasury take great satisfaction in this particular response. We have labored mightily with our colleagues in Canada and in Mexico to defuse the economic issues which could so easily divide us.

Thirdly, "Old Composite" would mention the fact that our democratic institutions seem viable and strong. Let me tell you to what, precisely, he refers. He refers to the fact that we had the sheer courage to raise our taxes in an election year and the raw honesty to pass a fair housing law which guarantees that a black man's money is as good as a white man's money when it comes to buying one of the simple needs of life—a home. The Finance Minister of one of the most disciplined countries that I know stated that he was amazed that we could raise taxes in an election year. He stated that it would not be easy to duplicate this feat in his own country.

Fourthly, "Old Composite" refers to the incredible strength of the American economy. In that connection, "Old Composite" was almost absolutely representative. Every Finance Minister talks about the strength of the U.S. economy in envious terms, and his envy is often related to the enormous educational lead that the United States has over every country in the world. To those of us in the financial world who are inclined to think in terms of fiscal discipline, rational monetary policies, stable price levels, and orderly security markets, this may seem surprising. However, if there is one refrain that ran through nearly all conversations, it was to the effect that the United States possesses an enormous and educated labor force beyond comparison with any in the world.

For his fifth item, "Old Composite" says that only in the United States of America could he find a set of markets with enough breadth and depth to enable him to take a position, or to liquidate a position, without an undue effect on the price level.

And lastly, "Old Composite," speaking more in the role of a European investment banker than in any other character, acknowledges that the hard work done by the then Under Secretary Fowler and Ambassador Robert McKinney, who worked on the Foreign Investors Tax Act, and the successful passage of this legislation, have had a great impact on his investment decisions. The study and this legislation cleared away much of the tax debris that was impeding the free flow of investment funds into this nation. And he refers in this context to the enormous investment in time and salesmanship that we have made in bringing this legislation to the attention of the investment counselors, the bankers, the finance ministers, and central bankers of the developed world.

After we had listened to this series of comments on why foreign capital was flowing into the United States, we inevitably raised some additional questions. One of the first questions that we usually asked was whether or not these distinguished gentlemen were disturbed by the unrest that was all too apparent in our universities. If we expected any comfort or any consolation, we were sorely disappointed. Many of the distinguished finance ministers who were conversing with us found this to be a hilarious question. Quite a few of these gentlemen, especially those from Latin America and Asia, seem to have been student leaders in their own college days. When we asked about student unrest, they would reply that in their opinion it was high time that the American students learn that there was more to life than football, panty raids, and goldfish swallowing. For those of you in this audience who are trustees of academic institutions, I can only convey the impression of these distinguished financiers

that student unrest is merely a phenomenon which the North American continent should have been expecting to appear for some time past.

When we asked whether they were not concerned about the racial disturbances that had perplexed our cities, these distinguished gentlemen inevitably became much more serious. Racial tensions are not unique to the United States. As a matter of fact, they persist in many parts of the world. But the balanced observers among those with whom we talked seemed to hold the opinion that we are attacking the problem of race in a rational and open manner—not sweeping the issue under the rug. We are making efforts, they say, to bring into the productive stream of our economy those people who are disadvantaged by race, education, or by background. They feel that this process must inevitably be beset by friction, social difficulties, and sometimes violence. But they go on to point out that friction, misunderstanding, and even occasional outbursts of violence, are vastly preferable in an open society to the repressions of a closed society which inevitably lead to an explosion.

All of these gentlemen could see continued friction in our society. None of them could see an explosion.

This, in short, is my attempt to summarize for you what our foreign colleagues think about the United States. Their opinion of us is possibly much higher than our own opinion of our achievements and our position in the world today. Let me recount a conversation with one extremely knowledgeable central banker. He was aware, because I had informed him, that Secretary Fowler has named me the Treasury officer responsible for coordinating the machinery for the orderly transition of our Department to a new Administration in January. He remarked to me that the new Administration is going to receive a remarkably strong and going financial system. These were the items that he ticked off—and he is absolutely correct.

—He said, number one, you are going to turn over a Federal budget that is shifting toward balance—from a huge deficit of $25.2 billion.

—You are going to turn over a nation whose balance of payments accounts are at least manageable—although your trade account is dreadful.

—You are going to turn over a Treasury that is dealing with money markets that are relatively stable and orderly.

—You are going to turn over a dynamic, growing economy with the best educated labor force in the world.

—Your swap lines (our lines of credit to other nations) are almost clear.

—Your gold cover has been removed and your gold reserves are clear.

—The SDR will probably be approved by the IMF and will be awaiting activation.

—You will have only one demerit against you at the moment—and that is your recent record on prices and wages—but even here your record is still one of the best in the industrial free world.

Taken all in all, this gentleman concluded, you are turning over a Treasury with enormous assets of reserves and credits, an economy with great attraction to the investment capital of the free world, and a democratic system that enjoys the respect of the world for its lasting strength and resourcefulness.

Exhibit 44.—Remarks by Under Secretary for Monetary Affairs Deming, September 26, 1968, at the annual meeting of the National Association of Business Economists, New York, on fiscal and other policies affecting the U.S. balance of payments

The title of my talk apparently is designed to give me considerable latitude in my remarks. Both the domestic economies separately and the world economy as a whole have become so interdependent and so interlinked that one can begin with almost any segment and find that it is influenced by and influences—in varying degree, of course—most other segments.

I have had the honor and the pleasure for most of the past 4 years to serve on an international body called by the prosaic name of Working Party Number 3—of the Economic Policy Committee of the Organization for Economic Cooperation and Development.

In a report on the balance of payments adjustment process, made by the Working Party in 1966, the following footnote describes it and its purpose:

"The Working Party was instituted in 1961, as a subcommittee of the Economic Policy Committee of the OECD. The purpose of the Working Party is 'the promotion of better international payments equilibrium;' and its terms of reference state that it 'will analyse the effect on international payments of monetary, fiscal and other policy measures, and will consult together on policy measures, both national and international, as they relate to international payments equilibrium.' Other Working Parties of the Economic Policy Committee are concerned with policies for the promotion of economic growth, and policies for promoting stability in costs and prices. All member countries of the OECD are represented on the Economic Policy Committee. The countries directly represented on Working Party No. 3 are: Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. The Working Party consists of senior officials from Ministries of Finance and other key government agencies and Central Banks concerned with balance of payments questions within their own administrations; and has established the practice of holding its meetings at 6-week to 8-week intervals."

The initial discussions of the Working Party concentrated primarily on balance of payments situations in individual countries with comment directed broadly at forecasts of developments in individual situations and methods of financing imbalances. Today the discussion necessarily ranges over much broader areas. It is not possible to discuss intelligently the balance of payments situation in a particular country without considering that country's objectives—both domestic and international—and their compatibility. Thus, the whole range of domestic economic policies must be considered. Of equal importance, it is not possible to discuss intelligently the balance of payments position of a particular country—at least, not any large country—without considering the effects of its policies on other countries and on the world economy. And, since every country is interested in growth both at home and in the world economy, the compatibility of balance of payments aims of the different countries and the need to pursue balance of payments adjustment policies in the framework of an expanding world economy is a major topic of discussion.

Therefore, I intend to talk today about the balance of payments adjustment process with particular attention to the United States.

If there is a central theme to these remarks, it is that balance of payments problems are complex—that the adjustment process is complex—and, consequently, the attainment of successful adjustment has to involve both surplus and deficit countries and a whole range of policies and policy instruments. Proper fiscal and monetary policies are of key importance in successful adjustment—but other policies, at least for the United States, and, I believe, for others, as well, are of high importance also.

Let me first address myself to the adjustment process in general.

The balance of payments adjustment process has some remarkable likenesses to a woman's girdle.

—It is a device designed to remove unsightly bulges and contain the body economic into a smooth and pleasing form.

—It must be modern in design, possessing a three-way stretch which provides firm support and permits free movement and flexibility.

—While everyone knows that it is worn, because it is widely advertised, it is generally covered over by other garments.

—And most wearers feel much better when they can take it off—when the particular national body economic is in such good shape that it is unnecessary.

Speaking broadly—and that is not a deliberate pun—a good adjustment process should provide time for smooth transition from deficit or surplus to equilibrium, should operate so as to facilitate rather than restrain world economic growth, should be flexible enough to accommodate as much as possible conflicting objectives, and should not involve unduly uncomfortable constraint on domestic economic policy. It has to have the three-way stretch—to provide firm support for world growth and permit free movement of trade and payments and to accommodate compensating movements of both deficit and surplus countries. And it has to be flexible enough to permit the use of a range of policy tools.

First, let me comment on some of the advantages and limitations of general fiscal, monetary, and incomes policies in correcting imbalances in international payments.

Two of these general policies—fiscal and monetary—affect the relationships of domestic demand and available economic resources, economic capacity at a

given period of time. The third—incomes policy—directly affects costs and prices and, through them, demand and capacity.

These are the three main instruments which can be used to achieve needed compatibility in the objectives of economic growth, full employment, and reasonably stable prices. Their wise and effective use is of key importance—for the domestic economy and for proper balance of payments objectives.

When we look at these instruments from the viewpoint of the balance of payments adjustment process, a new dimension—one of relativity—must be introduced. Comparative tightness or ease in the application of these broad policy instruments is of high importance in a smooth adjustment process.

The adjustment process study I mentioned earlier distinguished three broad cases of imbalance in international payments.

—One, due to an inappropriate—either too high or too low—level of internal demand.

—Two, due to a country's excessive or deficient competitive strength in world markets.

—Three, due to excessive capital movements.

But the report said clearly that, in most cases, two or more of the above factors and certain other factors were present and, even if analysis of the problem indicates that it can be neatly classified, the appropriate choice of policies to correct it may be a complex problem. To quote the report directly:

"It is generally recognized that the correction of important imbalances is in the interest of deficit and surplus countries alike. Both should be concerned, when formulating their economic policies, to prevent imbalances from becoming large or persistent. * * * it is an important object of international consultation to ensure that both surplus and deficit countries take appropriate action to restore international balance and that such measures are adequate and compatible with the interests of other countries.

"Wherever possible, it is desirable that adjustment should take place through the relaxation of controls and restraints over international trade and capital movements by surplus countries, rather than by the imposition of new restraints by deficit countries. Consideration should also be given to the interest of the international community as a whole. * * *

"More specifically, it is agreed that:

"With regard to demand management, the respective responsibilities depend primarily on the domestic situation in each country; and that where imbalances develop because domestic demand is too high or too low, the responsibility for action rests on the countries whose own demand is inappropriate.

"In cases where imbalances arise from divergent price trends in different countries, or other factors affecting competitive positions * * * action in surplus or deficit countries should, taken together, be designed as far as possible to be consistent with the maintenance of international price stability:

"Countries in surplus positions because of their competitive strength cannot realistically be called on deliberately to adjust their price levels upwards. In practice, however, it is difficult for such countries to isolate themselves completely from inflationary trends abroad; and if such price movements take place they already contribute to the adjustment of payments positions. * * *

"Countries in deficit should endeavor to keep the rise of incomes within, and if possible below, the rate of productivity increase. * * *

"Where disequilibria result from capital flows not directly connected with demand pressures, it is normally reasonable to expect both capital-exporting and capital-importing countries to take steps to moderate the flows, depending in large part on where the capital flows are most out of line with countries' longer term balance of payments objectives."

Now, I want to sketch briefly the history and anatomy of the U.S. balance of payments. To do so, I group the various and numerous receipt and payment accounts into four broad categories—and the groupings are not the conventional ones. In my judgment, the conventional arrangement of current and capital account items confuses rather than helps both the analysis and policy choices to deal with the adjustment process.

—*Trade account.*—This is fairly conventional. I eliminate merely military exports and imports.

—*Service account.*—This is not conventional. I include travel, transportation and miscellaneous nongovernment services and exclude all investment income receipts, both public and private, and fees and royalties. I add in private pensions and remittances.

—*Capital account.*—Here I include not only the private capital outflows on direct and portfolio investment but also all investment income receipts, both public and private, including fees and royalties and the catchall "errors and omissions."

—*Military and Government account.*—This includes mainly Government grants and capital, plus military transactions net of military sales, and also Government pension payments to recipients living abroad and some Government receipts and payments for miscellaneous services.

For overall measure of deficit or surplus, I use the liquidity concept, because it fits better as a net total for my grouping of accounts.

First, a broad look at the history.

In the 17 years from 1941 to 1957, the United States had a cumulative deficit on the liquidity basis of less than $10 billion, or less than $600 million per year on the average. We had a cumulative surplus on trade and services of $89 billion, or $5.2 billion a year. We had a deficit on military and Government transactions of $112 billion, or $6.6 billion per year. From 1946 to 1957 alone, we extended economic assistance in grants and loans of $42 billion net. On capital account, we had a surplus of $13 billion, or $800 million per year. And, despite our overall deficit, we gained gold reserves which, at the end of 1957, were $800 million larger than at the beginning of 1941.

The next 10 years saw a far different set of circumstances. We ran a cumulative deficit of $27 billion, or more than four times the annual average of the 1941–57 period. We lost $11 billion in gold and financed most of the rest of the deficit by increasing dollar claims against us. Thus, we not only lost gold reserves but our liquidity ratio deteriorated quite sharply.

In this 10-year period, our trade and service surplus averaged only $2.6 billion per year, our military and Government deficit averaged $5.5 billion, and our capital account was just barely positive.

The anatomical changes in the 27-year period are noteworthy. On trade account, we had an average surplus of more than $7 billion per year in the 9 years, 1941–49. A part of this surplus was the result of our loan and grant programs—including lend-lease. This was reflected in the very heavy deficits on military and Government account in those years averaging close to $10 billion per year during World War II and well over $6 billion in the early postwar years, 1946–49.

Our service account in this period was modestly positive, as was our capital account. There was little private capital outflow, and our income receipts were not large. Foreign capital in the period was negative—mainly because foreigners not only had little to invest but actually sold off holdings to help finance war and postwar expenses and repatriated earnings as much as possible.

In the next 11 years, 1950–60, our trade surplus was much smaller—about $3 billion a year on the average. Our military and Government deficit was much smaller also—averaging about $5 billion. The trade surplus grew to an average of about $5.4 billion in the 1961–64 period; since then, it has fallen sharply—to $3.5 billion in 1967 and to a barely positive figure so far this year.

The service account moved steadily into bigger deficit from 1948 on, reflecting mainly rising net expenditures on travel and transportation. The negative balance averaged about $600 million per year from 1950 through 1957, jumped to $1.3 billion per year in 1961–64, and, in 1967, was $2.6 billion. The adverse swing in this account was a whopping $2 billion from 1950 to 1967.

The military and Government account was the object of attention throughout the period, but particularly after 1960. The deficit was cut significantly in the early 1960's but rose sharply from 1965 on—reflecting mainly the foreign exchange costs of Vietnam.

On private capital account, we had a net surplus of about $1 billion a year from 1950 through 1957. The account turned to an average deficit of $1.1 billion in the 1961—64 years. In the last 3 years, it has been strongly positive.

Here a little more detail should be noted. The outflow on direct investment and portfolio account was nominal in World War II years and was only some $700 million a year in the early postwar years. It jumped sharply in 1950 and continued to increase throughout the following 14 years. In 1962, it was $3.5 billion; in 1964, it was $6.5 billion. The foreign investment programs of the Federal Reserve and the Commerce Department cut the outflow substantially in 1965 and, while it has grown some since that date, in 1967 it was $1.1 billion less than in 1964.

Income, including fees and royalties, on foreign investment rose strongly throughout the period—from about $1.2 billion average in 1946–49 to $6 billion

in 1964 and to $7.9 billion in 1967. It is highly important to note that the direct investment program has not cut total foreign investment by U.S. business—that has grown each year. What has happened is that a far larger share of the new investment has been financed by borrowing in foreign markets. Thus, the income flow has continued to expand. There has been no "killing of the goose"—it continues to lay bigger golden eggs.

Net foreign investment was a negative item throughout most of the period—mainly because we pay out income to foreigners who hold our bonds and stocks, as well as on their direct investment, much of which came in earlier years. But in the past 2 years, foreign investment has been positive and, so far in 1968, has been strongly positive. This reflects, in large part, the heavy borrowing abroad to finance American investment overseas and, most recently, heavy purchases of U.S. corporate stocks by foreigners.

To round out the capital picture, errors and omissions generally ran in our favor until 1960; since then, they have run against us. This figure—a balancing item—is generally believed to be mostly unrecorded capital flows.

Now, let us draw this detail together and consider its implications for the adjustment process.

The United States, generally, has had a trade surplus, but that surplus declined fairly steadily from 1965–67 and, so far in 1968, it has been minimal. Exports have continued to grow. But imports have expanded very sharply—primarily because the overheated American economy sucked in more than proportionate amounts of imports, but partly because of special factors reflecting strikes, or anticipations of strikes, on docks and in copper and steel.

In this area, fiscal and monetary policy can play a major role. A more sustainable growth rate should lead to reductions in import growth and an improved trade balance. But it is highly important to note two constraints on the use of fiscal and monetary policies to correct balance of trade deficits.

In the first place, while we are a major factor in world trade, it is because we are a big country. Relative to our total output, exports and imports are quite small. Reduction of the growth rate in the United States does not seem to stimulate exports very much, and it takes fairly strong anti-inflationary action to cut imports significantly.

Secondly, it is not good adjustment policy to sharply deflate the American economy. One thing we and the rest of the world have learned is that sharp deflation is not an acceptable balance of payments cure. It hurts the world as a whole, as well as the deficit country. And the American economy is such a big factor in the world that the consequences of economic decline here are widely feared. That does not mean, of course, that inflation should be allowed to run. Curbing inflation, as we are doing now, is not only acceptable—it is required. The key to proper policy is to avoid overdoing deflation and to keep the economy running at a sustainable growth rate.

There is still another reason for not depending solely on sharp deflation to cure balance of payments ills for the United States. Much of our difficulties come from adverse balances on service account, on military account, and on capital outflow.

I have noted that we normally run a deficit on service account—mainly because of our tourist expenditures abroad. Last year, our net tourist deficit was about $2 billion. Tourist expenditures are not closely related to fluctuations in economic activity but more to the growing number of people with high incomes. Fiscal and monetary policies have little effect on tourist expenditures.

The foreign exchange costs of our worldwide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays in this account amount to about $4.3 billion per year, and the impact on our payments position, even after netting receipts from sales of military goods, is about $3.3 billion. The only logical way to reduce the net drain is to implement further—as we are doing, to some extent—the accepted principle that the foreign exchange costs of common defense efforts should be neutralized.

Some capital flows are closely related to interest rates and, hence, are influenced by monetary policy; but much capital export reflects other factors—some economic and some noneconomic.

Now, let us go back for a moment to the 1941–57 period and see how the adjustment process worked then. Remember, we had a deficit in 11 out of 17 years for a cumulative total of less than $10 billion.

The point, of course, is that the United States was not in a real balance of payments deficit throughout that period, even though, on an accounting basis, we

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ran deficits in 11 out of 17 years. Both in the war years and the postwar years, we employed our great economic strength first to assist our allies and then to help rebuild a wartorn world. In that process, we loaned or gave away a lot of money which went first to buy our goods, since only the United States had major production resources virtually untouched by the war; and, second, to build up the international reserves of the rest of the world. Most of that reserve buildup was in the form of dollar claims—as noted, we actually gained gold reserves. The dollar was not only as good as gold—it was better.

We were not patsies during this period; we exercised the responsibilities of a great power and helped rebuild the world. We suffered discrimination against our trade, but it meant little, for we had most of the goods to sell abroad. There was a dollar shortage. The only reason foreigners did not buy more from us was that they did not have more money. Our capital markets were open and we encouraged their use. We picked up most of the checks for insuring free world security. We tried to increase our foreign private investment. We encouraged our tourists to go abroad and make substantial purchases there.

In the last 10 years, the deficits were bigger and more dangerous. Our reserve position deteriorated sharply. We employed various programs to bring us into better balance. After cutting our payments deficits from the high levels of 1958–60, when they averaged $3.7 billion per year, by about two-thirds—to $1.3 billion in 1965 and 1966, we ran another big deficit—$3.6 billion—in 1967.

It was in that setting that the President announced, on New Year's Day this year, a new, complete, and balanced program to eliminate the payments deficit. The program was in two major parts:

—First, and of key importance, was the tax increase and expenditure restraint to cool off the American economy and help restore our trade position. In addition, the President asked business and labor to exercise wage and price restraint and requested avoidance of crippling work stoppages to prevent import increases or export reductions.

—Second, five programs were aimed at particular and vulnerable segments of our balance of payments. Two were in the capital field and were aimed at reducing foreign borrowing in the United States and the foreign exchange costs of U.S. investment abroad. These were tailored selectively to have major impact on the surplus countries of Western Europe and least impact on the developing countries. One aimed at reducing the foreign exchange costs of Government expenditures overseas, with heavy emphasis on neutralization of military expenditures incurred in the common defense. One was aimed at increasing exports and reducing nontariff barriers, and one at reducing the net outflows on tourism.

The program was an overall program, but not all of it has been put into effect. The tax increase-expenditure restraint program was not enacted until midyear. Nothing has been done to reduce tourist expenditures. The two major capital programs came into force January 1 and have proved very effective. The reduction in the foreign exchange costs of Government has also worked out well.

The net result, so far, has been encouraging, but there is no cause for relaxation of our efforts. On a seasonally adjusted basis, the deficit in the last quarter of 1967 was $1.7 billion. In the first quarter of 1968, it was cut to $660 million and, in the second quarter, to $170 million.

The long string of deficits had become a destabilizing factor in the international monetary system and had eroded our own reserve and liquidity position. It is in our interest, and that of the world monetary system, to come into balance.

Passage of the tax increase-expenditure reduction legislation has improved confidence in the dollar. It has been further improved by the strong measures taken and the results achieved in our payments balance. But we cannot relax our efforts until we attain sustainable balance.

Now, I turn finally to the other aspect of the adjustment process—the responsibilities of surplus countries and the need for cooperation to make the process work smoothly. One overriding fact needs underlining here.

It is simple arithmetic to note that surpluses in some countries are the reflection of deficits in others, and vice versa. That simple fact means that deficits can be eliminated or reduced only if there is like reduction or elimination of surpluses. The only qualification to this point results when new reserves are created without adding to any country's deficit.

This point is well understood by the members of Working Party 3—note the quotations I cited on the adjustment process study. It is beginning to be understood more widely, also. And we can see real efforts being made to make the process work. If we look around the world today, we see the United States and the United Kingdom making progress to reduce their deficits—both by fiscal and monetary measures and by special and selective programs.

Western Europe—a major surplus area—is following expansionary action and also is exporting capital. Germany and Italy, in particular, are seeking to stimulate their economies by following monetary policies that are broadly expansive. Their use of stimulative fiscal policy has been less notable, but some success has been achieved in this field in Germany.

There is a special note that should be sounded with respect to capital flows. For surplus countries, this can be a major feature in the adjustment process—although not the only feature, of course. We have seen some of this as American companies have borrowed overseas to finance direct investment abroad. We have seen some of this as surplus countries open up their capital markets to the international institutions who borrow to relend to the developing countries. This is a positive way to help both the adjustment process and world development. We have seen, also, the flow of foreign investment into our equities—which is a solid way to improve our balance of payments position. And, finally, we have seen the growth of international monetary cooperation in helping to finance payments imbalances and, thus, give deficit countries time and opportunity to carry out proper domestic policies. The new sterling balance agreement and the recent swap credits for France are two very recent examples of this action. These are all healthy aspects of adjustment.

Since 1966, there has been no need for any comprehensive revision of the basic study of the adjustment process completed in 1966. Following up that study, efforts have been made to test the consistency of the long term objectives of all leading nations with respect to their balance of payments. As might be expected, most major industrial countries are seeking to maintain or achieve surplus positions in their current accounts.

At first glance, this might seem impossible to achieve, and, indeed, it is difficult to reconcile these national objectives. However, it is possible to do so as industrial countries can provide a net flow of goods and services to the developing world. Such a flow, however, has to be financed by private and public capital assistance programs from the industrial countries. In the past, some of these countries have extended to the developing world financial facilities on a relatively small scale. This is one of the imperfections in the pattern of international payments that we are seeking to improve.

It has also become clearer, as time has passed, that most countries will be seeking to build up their reserves over time. But there cannot be a global increase in reserves without the creation of new reserve assets. Otherwise, countries will be able to enlarge their own reserves only at the expense of other countries.

For many years, the deficit of the United States has provided the elastic element in the world's reserve situation that has permitted a number of countries to add to their reserves. With a correction of the U.S. deficit, there will be a new situation. Fortunately, we have prepared for this new situation by establishing the new facility for the deliberate creation of reserves in the International Monetary Fund. The necessary amendments to the Articles of Agreement of the Fund are now in process of being ratified by the member governments. This will provide a way to meet the reserve aspirations of individual countries and will, in general, ease the strain on the process of adjustment as it applies to both surplus and deficit countries.

The adjustment process in today's world is necessarily a complex process. Some types of transactions are primarily responsive to domestic fiscal and monetary policies; others are less so. Still others are influenced primarily by past economic policies and developments. Some reflect policy decisions of an essentially noneconomic nature.

To deal with adjustment, therefore, requires a range of policies, both general and selective, applied in ways that foster adjustment within a framework of economic growth. We have been making progress—in understanding, in policy choices, and in implementation of policies. I believe we shall continue that progress in the future.

Exhibit 45.—Excerpts from statement by Under Secretary for Monetary Affairs Deming, January 15, 1969, before the Subcommittee on International Exchange and Payments of the Joint Economic Committee[1]

In 1968, we restored our full position in the International Monetary Fund—$6,450 million. Our gold tranche of $1,290 million is, of course, virtually automatically available, should we need it. In addition, in 1968 the Federal Reserve swap lines were enlarged—to a total of $10.5 billion and, at year end, our drawings on our swap partners were less than $450 million, down from a peak of $1.8 billion in December, 1967.

To round out the international financial picture for 1968, I want to note three other achievements.

—In March, the two-tier gold system was established and has worked well. After suffering severe losses of gold reserves in late 1967 and early 1968, the drain of monetary gold into private hands was stopped. Since the end of March, U.S. gold holdings have increased net by $188 million. Also in March, the archaic gold cover requirement for Federal Reserve notes was removed, thus freeing up all of the U.S. gold stock for international monetary purposes.

—Also in March, final agreement was reached on a plan for a new international reserve asset—the Special Drawing Rights, or SDR. As of January 10, 1969, 29 countries with 47.54 percent of the weighted votes have ratified the proposed Amendment to the Fund's Articles of Agreement. When 67 countries, with 80 percent of the weighted votes, take this ratification action, and when countries with 75 percent of the vote deposit their certificates of participation with the Fund, the new machinery will be in place. I am confident that this will occur in the very near future. Activation of the new facility will, of course, come later—but, I hope, fairly soon—after a collective decision on amount.

—Finally, the international monetary system weathered a series of financial storms in 1968. International monetary cooperation successfully met the challenges it faced last year. Undoubtedly the system can and will be improved over time, but it should not be overlooked that it has worked well and has contributed greatly to world economic growth and the growth of world trade.

Just a year ago, Secretary Fowler released the U.S. Treasury Department report entitled, "Maintaining the Strength of the United States Dollar In A Strong Free World Economy." That report gave the history of the U.S. balance of payments position, described various programs that had been undertaken to resolve our balance of payments problem, and described in detail President Johnson's January 1 balance of payments action program. Last month, Secretary Fowler released a supplement to that report entitled, "A 1968 Progress Report," which was based on the results of the first three quarters of this year. It described the progress we had made in 1968 and the actions still required.

The Progress Report also repeated the text of the January 1 Message and printed an exchange of letters between President Johnson and Secretary Fowler announcing the 1969 balance of payments program, as recommended by the Cabinet Committee on the Balance of Payments and approved by the President. The Cabinet Committee laid down the following principles, which they believed should govern the program in 1969.

1. A stable economy and the restoration of a healthy U.S. trade surplus should be the primary objective for 1969.
2. Initiatives pursued in 1968 to assure fairness to U.S. trade in world markets should culminate in 1969 in cooperative action by the United States and our trading partners.
3. The Department of Commerce should intensify efforts to expand commercial exports generally and in conjunction with foreign assistance, and the Agency for International Development should continue measures to assure additionality and to minimize substitutions in foreign assistance.
4. Consistent with our security commitments, the Nation in 1969 should continue to minimize its net military deficit by reducing those expenditures whenever conditions permit and by neutralizing them through cooperative action by our allies.
5. The mandatory and temporary Foreign Direct Investment Program, as announced in modified form by the Secretary of Commerce on November 15, 1968, should be maintained.

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[1] The complete statement is published in hearings before the Subcommittee on International Exchange and Payments of the Joint Economic Committee, U.S. Congress, 91st Cong., first sess., Jan. 15, 1969, pp. 168–187.

6. The Federal Reserve Voluntary Foreign Credit Restraint Program should be maintained with present ceilings on foreign lending from the United States, but in the coming year attention should be given to possible modifications to encourage further the promotion and financing of exports by the commercial banking system.

7. The interest equalization tax, which expires July 31, 1969, should be extended with the existing authority to vary the rate from 1½ percent down to zero, depending on circumstances.

8. A five-year program is needed to narrow the travel deficit through promotion of foreign travel in the United States by both public and private action.

Against this background, I would like to analyze in some detail the history and the anatomy of the U.S. balance of payments. For this purpose, I have had constructed two tables, table I and table II, which present the U.S. balance of payments from 1941 through 1967 in a different and, I believe, somewhat more useful analytical form than the conventional current account—capital account presentation. This analytical form, which in broad outline is not unique, is, I believe, particularly useful from the viewpoint of policy formulation.

The two fundamental differences between the analytical models given in tables I and II and the conventional presentations are (1) the income on our foreign investment and the outpayments on foreign investment in the United States are taken out of the traditional "Services" account, which is a current account item, and put into the "Net Private Capital" account; and, (2) the figures on U.S. Government receipts and payments, both current account transactions and net U.S. Government grants and loans, are consolidated in two accounts, which I call "Government grants and capital, including income" and "Military sales and expenditures." There is one major exception to this second consolidation. Outpayments of interest on foreign holdings of U.S. Government securities are included in the capital account, which I call, without complete accuracy, "Net Private Capital." I will give the rationale for this inclusion later on.

Table I shows the detail, consolidated into the accounts noted, for the overall balance of payments. Table II shows the detail for the net private capital account, as I define it. Table I balances to the familiar liquidity balance measurement but also shows, for the period after 1960, the official settlements measure. Data on this measure are not available before 1969, which is the major practical reason for balancing the table to the liquidity measure.

Now, let me explain the specific accounts briefly. Column (1), Merchandise balance, is the familiar trade balance—the difference between exports and imports. It excludes sales and purchases on military account. Exports financed by U.S. economic grants and loans are included.

Column (2), Services balance, is quite different from the conventional account on services. It includes outflows and inflows—and thus the net—on transportation, on travel, and on miscellaneous services account, the latter both private and Government, plus pensions and remittances—also both Government and private. It might have been more consistent to have stripped out from this account Government payments and receipts for miscellaneous services and payments of Government pensions to those living abroad. In 1950, the net of these was about $200 million; in 1967, it was about $800 million. The reason for leaving these items in the Services balance was partly because of the work involved but mainly because the services were miscellaneous and the pensions, a major portion, are not susceptible to policy action anyway. The Services balance does not include any income receipts or payments on investment; as noted, these are included in the net private capital account. Nor does it include any military or Government aid and loan transactions. These are included in the military and Government accounts.

Column (3) is merely the sum of columns (1) and (2).

Column (4), Government grants and capital, including income, includes both disbursements and repayments on loans and grants—in other words, it is net. The account also includes interest and other income on Government loans and investments. It does not include foreign investments in U.S. Government securities or payments of interest on such securities. These are included in the net private capital account. Prior to 1946, the data on the Government account include military grants.

Column (5), Military sales and expenditures, is basically the foreign exchange costs of our military operations abroad, less receipts on sales of military goods and services. Before 1952, the series is a pure expenditure series; from 1953 to 1959, inclusive, it is expenditures minus deliveries of military goods and services; from 1959 on, it is expenditures minus cash receipts on military exports. From

1966 on, a separate column, (6), indicates military "neutralization," which is essentially financial transactions designed to offset the foreign exchange costs of our military expenditures undertaken in the common defense, but is not directly connected with foreign purchase of military goods and services from the United States.[1]

Column (7) is the net private capital account; column (8), the liquidity balance; column (9), the official settlements balance.

Table II shows a breakdown of the net private capital account in table I. As can be seen, it includes capital outflows from the United States on Direct Investment, column (10), and on Other Account (except Government), column (11). It also includes income receipts on our private foreign investments and this column, (12), includes receipts of fees and royalties from our direct investments abroad. Column (13) merely nets columns (10), (11), and (12). Net foreign investment inflow is shown as column (14). Income we pay to foreigners on their investments in the United States is shown in column (15). That series includes payments by both U.S. private and public sectors, and a word of explanation should be given right here about this series.

Income payments to foreigners is a composite of three separate payments. First is the dividends and interest earned on private investments in the United States by foreigners. Such foreign investment is mainly portfolio investment, but there is substantial direct investment here also. Second is interest and dividends earned on investments in the United States, by public institutions or governments. It is important to recognize that there are public or governmental investments—both direct and portfolio—in the private U.S. economy. Some of these investments are in real estate; most are in the form of interest-earning deposits in U.S. banks. Neither of these types of investment are new developments, although foreign central bank investments in U.S. bank certificates of deposit or time deposits have been extended both in amount and maturity in recent years, as interest rates in the United States have risen. Third is the interest payments made on foreign holdings—both public and private—of U.S. Government securities.

In connection with this third category, it is important to recognize two facts. First, the United States has financed much of its deficits over the past 18 years by increasing its liabilities both to official and private holders of dollars. As the primary reserve and vehicle currency of the free world, this has been a natural development. These dollars, of course, are held because of confidence in the U.S. economy, because there are major money and capital markets here which make it easy to buy and sell securities—particularly Government securities—and because investments in dollar securities earn a return. The rise in the volume of income payments to foreigners reflects, in no small degree, the rise in U.S. dollar liabilities to foreigners—both public and private.

Second, included in those payments are interest payments on the special types of U.S. securities held by official foreign accounts, such as "Roosa bonds" and the nonliquid securities sold to neutralize military foreign exchange costs. The only real difference between these latter and any other U.S. Government security is their nonliquidity, so that they are counted technically—in the liquidity balance concept—as capital inflow. From the interest cost point of view, there is little, if any, difference between them and any other Government security. I shall come back to this point later on in the analysis.

Finally, column (16), errors and omissions, is included in the net private capital account. Most analysts regard it as mainly an unrecorded capital item. Column (17) is the same as column (7), net private capital in table I.

Now, let us move to analysis of the figures as shown. You will note that I have grouped certain series of years and computed averages for those years. The first three groupings cover a period of 17 years—World War II, the immediate postwar, and the 1950–57 periods. Note that the United States was in deficit on the liquidity basis—and, if we had figures, I am sure it would show similar deficits on the official settlements basis—in 11 of the 17 years. The average annual deficit for the entire period was $563 million. And the United States financed its whole deficit in the 17 years—some $9.6 billion—by an increase in liquid dollar liabilities, about $7.7 billion to official holders and about $4.7 billion to private holders—which adds up to more than the deficit. The difference came

[1] Technically, military neutralization did not begin until 1967 when financial transactions for that purpose were specifically linked to our military expenditures in particular countries. I have included transactions done in 1966 and 1967, not then specifically counted as military neutralization but of the same type, only for purposes of comparability in this presentation.

in our gold holdings, which, on December 31, 1957, were up $862 million from the end of 1940, and an improvement in our IMF position of nearly $2 billion.

* * * * * * *

Now what lessons can be learned from this analysis? In my judgment they are the following:

1. It is vital that we improve performance on the trade account. In doing so these points are important:

(a) The economy must not be allowed to overheat. A sustainable rate of growth is desirable but a growth rate that strains resources, puts upward pressure on prices and costs, renders us less competitive, and sucks in imports in extraordinary volume is not desirable—either domestically or internationally. It is not desirable—either domestically or internationally—to deflate the economy substantially below its capacity.

(b) Every effort must be made to avoid crippling strikes in key industries that lead to lessened exports and increased imports. It takes a long time to recover from the effects of such developments.

(c) We need to engage more heavily in export promotion and continue to improve our export financing machinery.

(d) We must move strongly toward ameliorating the trade disadvantages which are built into the existing system. These include both nontariff barriers and border tax-export rebate systems.

2. It is vital that we continue to push toward further reductions in the net foreign exchange costs of our military expenditures incurred in the common defense of the free world. We have done a good deal in this area; we must move to more sustainable programs and to greater amounts. In this connection it is important to note:

(a) At the last meeting of NATO Ministers in November 1968, the following language was in the communique: "They (the Ministers) also acknowledged that the solidarity of the Alliance can be strengthened by cooperation between members to alleviate burdens arising from balance of payments deficits resulting specifically from military expenditures for the collective defense." It is now necessary to work out the implementing details.

(b) After Vietnam, it will be important to capture the potential foreign exchange savings through better burden sharing of mutual defense costs in the Far East.

(c) There is nothing inherently wrong in the military neutralization program—offsetting foreign exchange costs through financial transactions that represent capital inflow to the United States. Fundamentally, it costs the United States no more to pay interest on nonliquid military neutralization securities than on any other U.S. Government securities in which foreign governments invest their reserves. Nevertheless, foreign governments do not wish to lock up too great a quantity of their reserves in nonliquid securities so that the potential for such transactions is not infinite. But, more importantly, it is better practice to reduce the net foreign exchange costs of military expenditures through host country purchases of military goods and services from the United States or direct assumptions of some of the foreign exchange costs we bear and which accrue to those countries.

3. It is vital that we continue to stimulate foreign investment inflow into the United States. This is a perfectly sound method to aid our payments balance. Both direct and portfolio investment by foreigners in the United States is useful and helpful.

4. For the time being it is essential that we continue to restrain capital outflows from the United States.

5. We must stimulate more foreign travel to the United States.

In summary, let me point out these facts.

1. Even if we succeed in stimulating travel to the United States, it is unlikely that we can do more than to hold the deficit in service account to something like its level in 1967 and 1968. As a high income country, our people will travel abroad. Simple demand management policy—even perfect demand management policy—will not cut this outflow. So we will have to run fast in promoting foreign travel here just to stay in the same place—a substantial deficit. Here a 5 percent ticket tax with the proceeds going to finance a well-coordinated tourism program is highly important.

2. Government grants and capital help finance exports and are important in helping develop the less developed countries of the world. We should increase our level of foreign aid, but do so in a way that protects us when we are in balance

of payments deficit and in a way that helps assure additionality of commercial exports. But it is unlikely that the gross drain—as shown in column (4) will decline. It is likely to rise—and it should rise.

3. Military expenditures are not susceptible to demand management. We have to seek political cooperation to reduce their net foreign exchange drain.

4. If we assume a service outflow of $2.5 billion, a Government capital outflow of $3.5 billion, and a net military outflow of only $1 billion, we need a $7 billion trade surplus just to balance these outflows and this leaves nothing for private capital export. To the extent we export capital net we need a bigger trade surplus.

5. It thus is highly important that we attract capital inflow here—to offset gross capital outflow that cannot be covered by the trade account.

I might summarize my remarks at this point by saying that I believe the corrective or adjustment process in our balance of payments will have to occur to a significant extent in the capital accounts and not only in our current account items. I also believe this process will necessarily involve more policy coordination among the major countries, not only on general adjustment measures but on specific ones as well.

General measures, working through changes in incomes and prices, here and abroad, simply do not have sufficient effect on military, foreign aid and, perhaps, some other types of transactions; and any effect they do have is likely to be diffused rather than concentrated among the countries most involved in such transactions.

As I said last September at the annual meeting of the National Association of Business Economists:

"* * * the adjustment process is complex, and, consequently, the attainment of successful adjustment has to involve both surplus and deficit countries and a whole range of policies and policy instruments. Proper fiscal and monetary policies are of key importance in successful adjustment—but other policies, at least for the United States, and, I believe, for others, as well, are of high importance also.

"Some types of transactions are primarily responsive to domestic fiscal and monetary policies; other are less so. Still others are influenced primarily by past economic policies and developments. Some reflect policy decisions of an essentially noneconomic nature."

I believe this situation will continue; and that in addition to whatever balance of payments adjustment we achieve through general measures, we will also have to rely on some specific measures for achieving external balance. Not only are general measures ineffective for certain important types of U.S. transactions abroad; their use beyond a certain degree to influence transactions where they are effective may run into conflict with the achievement of one or more other major national objectives, such as full employment and steady economic growth.

Let me now mention two points on which you asked me to comment.

The proposed temporary tax on travel expenditures plus a proposed 5 percent ticket tax on international flights was designed to achieve an immediate balance of payments saving by inducing travelers to moderate their expenditures while abroad, and, at the same time, provide budget funds for financing over the next 5 years greatly stepped-up promotion campaigns for foreign travel to the United States.

The Congress did not accept the proposed taxes—the restrictive aspect of the proposal; but by not providing an alternative source of financing for the medium term promotion campaign, it has left efforts to reduce our tourist deficit in suspension.

I do not know what views the new Administration might have on this matter, but my own judgment, if I were continuing in office, would be to press Congress hard for more adequate funds for promoting foreign tourism to the United States; and, if this required additional financing because of overall budget considerations, renew the request for a 5 percent ticket tax on international flights—the same rate that has applied to domestic flights for years.

The second matter is the interest equalization tax which went into effect in July 1963 as a means of stemming the rapidly rising outflow of U.S. portfolio capital to other advanced countries. Foreign borrowers, by and large, were seeking medium and long term funds here not because of any shortage of dollar exchange in their own countries, but because they could borrow here more cheaply for their domestic working capital needs than they could borrow in their own markets. The U.S. market was, in effect, playing a role which the domestic money and capital markets of other advanced countries should have filled; and this was costing our balance of payments heavily.

The tax was certainly effective in stemming the portfolio outflow at which it was initially directed, and in early 1965 when it was applied to long term bank loans, it reinforced the operation of the banks' voluntary restraint program by screening out those foreign borrowers unwilling to pay the additional 1 percent per annum which the tax involved.

Only about $120 million of foreign issues subject to the interest equalization tax have been floated in the United States in the 5½ years since the tax took effect. Countries subject to the tax—including Japan which has a limited exemption—sold $356 million of issues here in 1962 and almost $700 million, at an annual rate, in the first half of 1963. Last year, as far as our data now show, they sold only $3 million here. Hence, without regard to any trend growth in their issues here, our balance of payments last year benefited by a gross amount of around $700 million. With allowance for some trend growth, the amount would be even larger.

The net benefit, of course, is less than this, for part of the potential outflow in the form of portfolio investment abroad was undoubtedly diverted into other forms of lending abroad. But we do not think the net benefit for our balance of payments was much less than the gross benefit for the following reasons.

As noted above, a large part of the pre-July 1963 outflow was essentially for domestic working capital use in the countries of the borrowers. After the interest equalization tax took effect, they turned to their local or third country markets and stimulated a growth in the size of these markets (mostly in Europe) which was greatly abetted by the efforts of U.S. investment bankers who had lost a considerable amount of their foreign business in the United States.

By the time the voluntary and mandatory restraint programs came along, the European markets were able to respond not only to the growing demand of many foreign borrowers outside the United States but also the large demand of U.S. direct investors who were induced by the FDIP to finance their direct investments through such borrowing. The international securities market, outside the United States, has grown from around $500 million in 1963 to around $5 billion in 1968—a tenfold increase in 5 years.

This is an example of a temporary restrictive measure generating a useful long term effect. But how temporary is the interest equalization tax? It was passed initially for 2 years; and it has been renewed twice. The last renewal added an administrative flexibility feature to the tax, designed in part to aid in phasing the tax out.

In my judgment, the tax should be extended and the flexible authority retained.

It is true that relative interest rates here and abroad, in December, favored foreign corporate borrowing here by only about a half percent—well under the 1.25 percent interest equilization tax per annum cost to a potential foreign borrower. Relative interest rates, however, provided a stronger incentive to foreign governments to borrow here rather than abroad. Also, the relative rate situation has been affected by the unusually liquid conditions in certain European credit markets—namely in Germany and Italy—and by the tight conditions here. It is not clear how long this situation will last. If we had reduced the interest equalization tax rate to a per annum effective cost of, say, a half percent a year, there might have been a surge of foreign issues on this market in anticipation that the interest equalization tax rate would be raised.

In short, a reduction of the rate seems useful only when there is a clear prospect that the reduction will not have to be temporary.

The same point applies to extension of the interest equalization tax legislation. I do not think it should be allowed to lapse until our balance of payments progress on other fronts is sufficiently assured to avoid any likely need for renewal of the tax. The tax has served and continues to serve a useful function in restraining capital outflows; and it has done this with no observed adverse effect on private long term capital inflows which have occurred at an unprecedented rate in the last year and a half.

This completes my comments on the second example of a specific balance of payments measure, one which Congress has supported.

In conclusion, a solution of the balance of payments problem remains among the nation's top priorities. Progress toward a solution is being made on major sectors other than trade and tourism; and the elements for a gradual improvement in these accounts are at hand in the measures which we have designed.

With a determination to end inflation, the continuation of certain specific balance of payments measures and responsible action by the surplus countries, I can foresee a successful end to our efforts.

TABLE I.—*U.S. balance of payments*

[In millions of dollars]

	(1) Merchandise balance	(2) Services balance	(3) Balance on goods and services	(4) Government grants and capital, including income	(5) Military sales and expenditures [1]	(6) Military neutralization	(7) Net private capital [2]	(8) Liquidity balance	(9) Official settlements balance
1941	1,927	84	2,011	[3] −1,314	−162		584	[4] 1,119	n.a.
1942	5,688	1,290	6,978	[3] −6,507	−953		277	[4] −205	n.a.
1943	10,516	1,762	12,278	[3] −12,835	−1,763		341	[4] −1,979	n.a.
1944	11,926	1,800	13,726	[3] −14,060	−1,982		457	[4] −1,859	n.a.
1945	7,228	318	7,546	[3] −7,544	−2,434		−305	[4] −2,737	n.a.
Average 1941–45	7,457	1,051	8,508	[3] −8,452	−1,459		271	[4] −1,132	n.a.
1946	6,634	331	6,965	−5,272	−493		207	993	n.a.
1947	10,036	286	10,322	−6,055	−455		398	4,210	n.a.
1948	5,630	−165	5,465	−4,816	−799		967	817	n.a.
1949	5,270	−303	4,967	−5,551	−621		1,341	136	n.a.
Average 1946–49	6,893	37	6,930	−5,424	−592		625	1,539	n.a.
1950	1,009	−537	472	−3,531	−576		146	−3,489	n.a.
1951	2,921	−57	2,864	−2,993	−1,270		1,391	−8	n.a.
1952	2,481	−309	2,172	−2,176	−2,054		852	−1,206	n.a.
1953	1,291	−703	588	−1,803	−2,423		1,454	−2,184	n.a.
1954	2,445	−733	1,712	−1,282	−2,460		489	−1,541	n.a.
1955	2,753	−753	2,000	−1,937	−2,701		1,396	−1,242	n.a.
1956	4,575	−833	3,742	−2,168	−2,788		241	−973	n.a.
1957	6,099	−674	5,425	−2,369	−2,841		363	578	n.a.
Average 1950–57	2,947	−575	2,372	−2,282	−2,139		792	−1,257	n.a.
Average 1941–57	5,202	47	5,249	−4,836	−1,575		599	−563	n.a.
1958	3,312	−1,138	2,174	−2,280	−3,135		−124	−3,365	n.a.
1959	985	−1,411	−426	−1,637	−2,805		998	−3,870	n.a.
1960	4,743	−1,405	3,338	−2,446	−2,768		−2,022	−3,901	−3,403
Average 1958–60	3,013	−1,318	1,695	−2,121	−2,903		−383	−3,712	n.a.
1961	5,422	−1,491	3,931	−2,423	−2,599		−1,279	−2,371	−1,347
1962	4,387	−1,623	2,764	−2,569	−1,966		−435	−2,204	−2,702
1963	5,057	−1,818	3,239	−3,106	−1,967		−838	−2,670	−2,011
1964	6,649	−1,695	4,954	−3,133	−1,889		−2,735	−2,800	−1,564
Average 1961–64	5,379	−1,657	3,722	−2,808	−2,105		−1,322	−2,511	−1,906
1965	4,728	−1,828	2,900	−2,895	−1,865		525	−1,335	−1,289
1966	3,635	−1,872	1,763	−3,086	−2,808	743	2,035	−1,357	−266
Average 1965–66	4,182	−1,850	2,332	−2,991	−2,337	372	1,280	−1,346	−512
1967	3,477	−2,592	885	−3,697	−3,317	734	1,823	−3,571	−3,405
Average 1958–67	4,240	−1,687	2,552	−2,727	−2,512	[5] 148	−205	−2,744	[6] −1,546

[1] Figures through 1952 are expenditures only; those for 1953–59 are net of "transfers" (i.e., deliveries) on military sales; those beginning 1960 are net of cash receipts from military sales contracts.

[2] Including private payments and receipts, and Government payments, of investment income; includes also long term capital inflows from foreign governments not related to military sales or military neutralization.

[3] Includes military grants, which were not separately available before 1946.

[4] Earlier series which may not be precisely comparable with data for 1946 on.

[5] Averaged over 10 years in order to cross-add to "liquidity balance," although such transactions began only in 1966.

[6] Average for 1960–67.

n.a. Not available.

TABLE II.—*U.S. balance of payments: Detail of column 7, table I*

[In millions of dollars]

	(10) Outflow on direct investment	(11) Other private capital outflow	(12) Income receipts [1]	(13) Net of columns 10-12	(14) Foreign investment inflow [2]	(15) Income payments to foreigners [3]	(16) Errors and omissions	(17) Net private capital, columns 13-16
1941	47	40	535	622	−327	−187	476	584
1942	19	12	496	527	−84	−158	−8	277
1943	98	−70	497	525	−63	−155	34	341
1944	71	−147	556	480	175	−161	−37	457
1945	−100	−450	572	22	−104	−231	8	−305
Average 1941-45	27	−123	531	435	−81	−178	95	271
1946	−230	−183	815	402	−615	−212	218	−207
1947	−749	−238	1,113	126	−432	−245	949	398
1948	−721	−185	1,321	415	−361	−280	1,193	967
1949	−660	107	1,397	344	44	−333	786	1,341
Average 1946-49	−590	−125	1,162	447	−341	−268	787	625
1950	−621	−644	1,610	345	181	−369	−11	146
1951	−508	−540	1,813	765	540	−414	500	1,391
1952	−852	−308	1,754	594	52	−421	627	852
1953	−735	352	1,786	1,403	146	−461	366	1,454
1954	−667	−955	2,091	469	249	−420	191	489
1955	−823	−432	2,328	1,073	297	−489	515	1,396
1956	−1,951	−1,120	2,697	−374	615	−568	568	241
1957	−2,442	−1,135	2,850	−727	545	−639	1,184	363
Average 1950-57	−1,075	−598	2,110	444	328	−473	493	792
Average 1941-57	−637	−347	1,425	442	50	−338	445	599
1958	−1,181	−1,755	2,784	−152	186	−669	511	−124
1959	−1,372	−1,003	3,042	667	736	−828	423	998
1960	−1,674	−2,204	3,404	−474	407	−1,063	−892	−2,022
Average 1958-60	−1,409	−1,654	3,077	14	443	−853	14	−383
1961	−1,598	−2,582	4,024	−156	731	−1,007	−847	−1,279
1962	−1,654	−1,772	4,528	1,102	570	−1,110	−997	−435
1963	−1,976	−2,483	4,811	352	379	−1,325	−244	−838
1964	−2,328	−4,250	5,686	−892	473	−1,456	−860	−2,735
Average 1961-64	−1,889	−2,772	4,762	102	538	−1,225	−737	−1,322
1965	−3,468	−326	6,308	2,514	55	−1,729	−315	525
1966	−3,623	−793	6,689	2,273	2,044	−2,074	−210	2,033
Average 1965-66	−3,546	−560	6,499	2,394	1,050	−1,902	−263	1,280
1967	−3,020	−2,630	7,374	1,724	2,924	−2,293	−532	1,823
Average 1958-67	−2,189	−1,980	4,865	696	851	−1,355	−396	−205

[1] Including fees and royalties from direct investment and excluding Government investment income.
[2] Includes long term inflows from foreign governments not related to military sales or military neutralization.
[3] Includes U.S. Government payments of investment income.

SUPPLEMENTAL STATEMENT BY UNDER SECRETARY FOR MONETARY AFFAIRS DEMING, JANUARY 15, 1969, BEFORE THE SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS OF THE JOINT ECONOMIC COMMITTEE

I am now able to give you preliminary figures for 1968. The organization of the data is the same as appears in Tables I and II of my full statement.

TABLE I.—*1968 U.S. balance of payments*

[In millions]

	Estimated		Estimated
(1) Merchandise balance	$500	(5) Military sales and expenditures	−$3,600
(2) Services balance	−2,315	(6) Military neutralization	1,512
(3) Balance on goods and services	−1,815	(7) Net private capital	7,700
(4) Government grants and capital, including income	−3,640	(8) Liquidity balance	150
		(9) Official settlements balance	1,700

TABLE II.—*U.S. balance of payments*

[In millions]

	Estimated		Estimated
(10) Outflow on direct investment	−$3,000	(14) Foreign investment inflow	$6,950
(11) Other private capital outflow	−1,850	(15) Income payments to foreigners	−2,800
(12) Income receipts	8,300	(16) Errors and omissions	100
(13) Net of columns 10–12	3,450	(17) Net private capital (columns 13–16)	7,700

In 1968, the United States had a surplus in its balance of payments on both the liquidity and the official settlements basis. On the liquidity basis, the surplus was the first since 1957—around $150 million on the preliminary figures we have. On the official settlements basis, the 1968 surplus, again on preliminary figures, was about $1.7 billion. The data on official settlements go back only to 1960; we had a small surplus of about $300 million in 1966; every other year from 1960 through 1967, we had deficits.

The 1968 total is preliminary but relatively firm. The final is not likely to be more than $200 million or $300 million different from the preliminary. That may be quite a difference from pure fourth quarter figures—which are the ones that are preliminary—but not much for the year.

The real uncertainties lie in the figures given for the specific accounts. Trade figures are reasonably firm, for we get monthly data on these and they represent essentially 11-month data extrapolated for the year. The military account and the neutralization account are fairly firm; Government grants and capital is a highly preliminary estimate. The net private capital item is really the balancing item, and its components in table II are all most preliminary estimates. We have reasonably good current figures on foreign purchases of U.S. stocks and bonds, and on U.S. bank lending abroad. But the capital flows of the past 2 months leave many of the figures for the individual capital accounts in a high state of uncertainty.

To sum up, we are reasonably certain of the total for the liquidity balance; less certain, but not too much so, of the figures for the official settlements balance and the components of table I and not at all certain of the component figures in table II. Nevertheless, I think it useful to present the figures.

With these 1968 figures, I can carry the analysis a step further by comparing 1968 with 1964 and 1967.

The trade performance in 1968 was very poor. The final figure seems likely to show a miserable $500 million surplus, down $3 billion from last year's respectable but relatively poor showing, and down more than $6 billion from the 1964 level. I have already noted that the major factor in the decline was the overheated U.S. economy and that delay in passage of the tax bill probably cost us dearly in the trade balance. The primary element in the worsening of our trade balance was the expansion of imports. The trade balance also was affected

adversely, as noted earlier, by actual or threatened strikes. Perhaps a quarter of the deterioration from 1967 to 1968 reflected that factor.

The services balance in 1968 showed some improvement from 1967, which had been especially adverse because of the attraction of Expo 67 in Canada. Obviously, the basic trend in this account is adverse. Relative to 1964, the 1968 services account deteriorated $500 million.

Thus the balance on goods and services which had been strongly positive in 1964, and still positive in 1967, turned strongly negative in 1968. This was clearly the worst feature of the 1968 performance.

The adverse balance on Government grants and capital actually improved a bit from 1967 to 1968, reflecting hard Government efforts to reduce outflows on this account. Relative to 1964, such outlays were higher by $500 million—due in large part to much heavier financing of nonmilitary goods and services exports by the Export-Import Bank. This financing, of course, strengthened our export position.

Military expenditures, net of military sales rose $1.7 billion from 1964 to 1968 and were up $300 million from 1967 to 1968. But with the concentrated effort to neutralize these foreign exchange costs—reflected in the doubling of such arrangements from 1967 to 1968—the 1968 figure net of such neutralization was within $200 million of the 1964 outflow and $500 million better than in 1967.

The real swing came in the capital accounts. The net of capital outflows from the United States and the income inflows, including fees and royalties, on our foreign investment was a positive $3.5 billion in 1968—double what it was in 1967 and almost $4.5 billion better than it was in 1964. And these figures do not reflect the real cutback in financial flows on direct investment account due to American business borrowing abroad. That, as noted, is included in Foreign Capital Inflow. The favorable result in this area was a product of ever growing earnings on our foreign investments and restraint on the foreign exchange costs of our foreign investment.

Foreign capital inflows in 1968 apparently reached close to $7 billion and out-payments of income to foreigners on their investments here were about $2.8 billion. The capital inflows in 1968 were $6.5 billion larger than in 1964 and $4 billion larger than in 1967. Income payments to foreigners were $1.3 billion more than in 1964 and $500 million more than in 1967.

The inflow in 1968 represented purchases of American equities of close to $2 billion, purchases of American corporate debt instruments of about the same amount, special receipts from foreign governments other than military neutralization of about $1.5 billion, and direct investments plus foreign commercial credits to U.S. borrowers of about $1.5 billion.

Finally, errors and omissions seem to have turned positive for the first time since 1959.

Pulling all this detail together, we can see that 1968 relative to 1964 showed a deterioration of $7.5 billion in the combination of trade, service, and Government expenditures, and an improvement of $10.6 billion in the capital account for a net improvement on the liquidity balance measure of $3.1 billion. Relative to 1967, the comparable figures are a deterioration in trade and service of $2.8 billion, an improvement in Government account of $700 million and an improvement in capital account of $6.1 billion for a net gain on the liquidity basis of $3.9 billion.

In my formal statement, I cited several conclusions which I distilled from the detailed analysis of the 1941–67 data on balance of payments. None of those conclusions are changed from analysis of the preliminary 1968 data. Nevertheless, I have some additional comments to make as a result of that analysis.

1. The 1968 balance of payments result reflected mainly a strong balance of payments program, the Action Program announced by the President on January 1. Those parts of the program that were put into effect—the mandatory direct investment program, the strengthened Federal Reserve program, and the drive to reduce the foreign exchange costs of Government—including military expenditures overseas—worked very well.

2. Failure to enact promptly what the President called the first order of business—the Revenue and Expenditure Control Act of 1968, cost our trade account heavily. So did the strikes or threatened strikes.

3. We also got no help from removal of trade disadvantages or deliberate actions—e.g., Kennedy Round acceleration by our trading partners—on our trade problem.

4. While tourism was not as big a drain in 1968 as in 1967, that was due to special factors. We have a good long range plan to attract foreign tourists here. We have no financing for that plan.

5. Most of the capital inflow that occurred in 1968 was solid and the result of deliberate policy or deliberate attempt to secure it. Some—equally solid—may have reflected unrest and uncertainty in Europe and realization that even an overheated U.S. economy was an attractive place to invest.

6. There is no reason not to expect continuation of the favorable capital position. Earnings on our foreign investments should continue to increase; investment in American equities should continue substantial—especially if the economy comes into better balance; borrowings by American corporations overseas should continue, if needed.

7. Thus, our balance of payments position in 1968 is not "fragile" or "unsound." Whether we should balance in other years in this way is, of course, another question. My answer is that such a balance is not really good for the world.

8. Thus, I want to restress the conclusion in my formal statement. We need to improve the trade balance; we need to drive even harder to offset military foreign exchange costs. We need to begin effective action to hold the Services deficit in bounds. And we need to continue to attract foreign capital. If we do these things, we can fire up our own capital outflows.

9. This is the real road to both a solid and a responsible balance of payments equilibrium.

Exhibit 46.—Statement by Under Secretary for Monetary Affairs Volcker, February 27, 1969, before the Joint Economic Committee

This committee has come to play a special role in stimulating congressional thinking and public discussion in the complex area of international finance, and I particularly look forward to the opportunity of working with you in the future. As you will understand, I will not at this stage attempt to lay out the specific ingredients of our approach towards the balance of payments or a precise agenda for improvements in our international monetary arrangements. Rather, I would like to appraise where we now stand and to suggest a general framework for approaching the future.

Certainly, there can be no shrinking from the fact that serious problems exist in the areas you are reviewing today. Secretary Stans has already covered our balance of payments results for last year. I will not go over that ground again in detail. However, I would reiterate the plain fact of the matter. The overall balance in our external payments last year on the liquidity basis, welcome as it is, was achieved only as a result of an unprecedented swing in the capital accounts. The United States, for the first time in the postwar period, became a large net importer of capital. That is an extraordinary position for the world's richest economy. It is a position that we should neither expect nor want to sustain for long.

Meanwhile, the international competitive position of our industry is feeling the effects of several years of accelerating price inflation and overheating at home. The impact on our trade balance has been aggravated by slower growth and excess capacity in some other leading industrialized countries.

The behavior of our price indices helps tell the story. Consumer prices in this country rose by only a little over 1 percent a year from 1958 to 1964, and export prices were nearly flat. From 1964–68, in contrast, consumer prices rose by over 14 percent, and the latest available data show export prices up by about 9 percent from 1964. A composite index of export prices for the industrial countries of Europe rose by only 2 percent over the latter period; and, in Japan, the rise was only 1 percent.

While movements in relative prices are certainly not the only factor responsible, we are faced today with a situation in which our once healthy trade surplus has entirely disappeared. The most recent data, while difficult to interpret because of the dock strike, show no clear evidence that the turning point has yet been reached. In these circumstances, there is no room for complacency with respect to our competitive position.

I have no wish to minimize the constructive and longer term elements in the large capital inflow last year. Given the fact of the deterioration in the trade

balance, these flows did serve an equilibrating function and, in part, reflect some desirable longer run structural changes in financial markets. For instance, the foreign net purchases of U.S. stocks, which jumped to $1.9 billion last year from an average of only $200 million over the previous 5 years, may stem, in part, from a basic shift in the investment patterns of many European investors, attracted by the liquidity and growth potential of the American market. The expanded promotional activities of the American financial community—backstopped by action the Government itself has taken to rationalize the tax treatment of foreign portfolio investment—has certainly played a part.

Similarly, the rapid development of the Euro-bond market—and the Euro-dollar market more generally—has provided both United States and foreign businesses with an alternative source of funds in financing overseas expansion, reducing the drains on the American market. The result was that U.S. firms could raise some $2 billion in the European bond markets at interest costs only marginally higher than they might otherwise have paid in the United States.

Nevertheless, more transient factors also played a major role in the swing in the capital accounts. The main impetus to foreign borrowing by the U.S. companies came from the mandatory controls on direct investment outflows from the United States. Commercial banks, faced with tighter guidelines on their foreign lending, cut their overseas credits in 1968, in contrast to a sizeable increase the year before. These particular sources of improvement will not be operative in the future. Indeed, instead of relying on controls to achieve shortrun improvement, we want to move in the direction of relaxation just as quickly as circumstances permit.

The increasingly tight money conditions in the U.S. market also pulled large amounts of capital to this country. This was most visible in the form of an increase of about $2 billion in borrowing of American banks from their own overseas branches. Those branches, in turn, were bidding for funds in the Euro-dollar market.

The pull of tight money, which has continued into the early weeks of the new year, helped to account for the sizeable surplus of $1.7 billion achieved on the official settlements basis in 1968. Essentially, dollars that might have become foreign official claims on the United States were, instead, diverted into the Euro-dollar market and returned for use in this country through the private market. In the short run, this inflow was helpful. But short term borrowing in this amount can hardly be considered a part of a long term solution to our balance of payments problem.

A variety of so-called special transactions arranged with foreign official institutions also were an important element in last year's results, and an element that should not be relied upon year after year. Here, I would draw a distinction between those special transactions that represent an "offsetting" or "neutralization" of our military expenditures abroad and those designed simply to change the maturity of some of the dollars held by foreign central banks. The former reflect an effort to come to grips with the continuing problem of evening out balance of payments burdens arising out of the mutual defense effort. We cannot be entirely satisfied with the form of many of these offset transactions, but the basic principle that no country should suffer balance of payments disadvantage through its contribution to the NATO defense structure is sound.

Turning from our own balance of payments to the international financial scene generally, signs of tension and strain have been evident over the past year or more. I need not review the series of so-called crises, beginning with the devaluation of sterling in late 1967, that have attracted so much attention. Nor will I maintain that the period of relative calm that has been restored to the markets since the Bonn Conference last November is an indication that the problems are now behind us. But I would urge that, in approaching these problems and finding durable solutions, we not be beguiled by the thought that a full answer can be found merely by a change in some of the technical international monetary arrangements.

The problems are deeper. In part, they are a symptom of inflation, not only in some countries abroad, but in recent years in the United States as well. The result has been a sense of lack of control—of drift—which, if long continued, could undermine the sense of confidence in the monetary system. Without confidence, any monetary mechanism will work poorly—and orderly change becomes more difficult.

That is one reason why a first priority for the United States must be to regain control over its own inflation. We do not have the option of achieving that result

in an abrupt way that would lead to a contraction in trade abroad as well as excessive unemployment at home. Even looking at the balance of payments in isolation, there would be little or nothing to be gained from a sharp recession that drives too much money abroad in search of more profitable employment. But steady restraint, applied as long as necessary, is the basic ingredient upon which American leadership in the international monetary area must rest.

Apart from the current inflationary problem in the United States, developments in recent years have brought into fresh focus some old—but still unsolved—problems of international adjustment. Nations give heavy weight to domestic objectives, and it is natural for differing emphases to emerge with respect to employment, growth, productivity, and price stability. The result is a tendency to push balance of payments out of equilibrium, with resultant strains on the monetary mechanism.

Even considering balance of payments objectives themselves, the evidence seems to be accumulating that nearly all countries feel more comfortable with—and aim for—surpluses (or at least increases in international reserves) over a period of time. Yet, unless new reserves are being created in sufficient volume to support these aims, they turn out to be mutually (and arithmetically) incompatible and thus impede adjustment.

As a practical matter, the United States, because of its size and the widespread use of its currency, is in an essentially different position from most other countries in this respect. A small country is able to make adjustments in its economic policies within some range upon the assumption that the rest of the world will "stand still;" the adjustments will, therefore, be effective in terms of its balance of payments. The United States often cannot make the same assumption. The policies we adopt have a pervasive influence on the rest of the world, and other countries may thus react to our moves by changes on their part to maintain their external balance. In this situation, so long as other countries collectively want, over time, to run a surplus—and essentially achieve this surplus by adjusting to the position of the United States—the ability of this country to restore a durable equilibrium is closely circumscribed.

I would go further and put the point more positively. Surplus countries must themselves recognize they share the responsibility for undertaking the adjustments, in current as well as capital accounts, necessary to achieve a healthier international monetary system.

Another problem area is the strains on the monetary mechanism that have developed from structural changes in international payments. One aspect of this change, referred to earlier, is the large and sustained burden of defense expenditures abroad. These expenditures obey no economic law; yet they do permeate the economic and payments structure of the United States and other countries in a way that cannot easily, if at all, be absorbed by the traditional adjustment policies.

At least as important over time is the increasing volume of capital flows that have accompanied the growing integration of the international economy, particularly in the highly developed part of the world. This movement of capital brings great gains in the rapid dispersion of technology and managerial techniques, in the potential for efficient large-scale production, and in the better allocation of scarce capital worldwide. But it also brings the potential for a great volatility of funds and essentially speculative flows that do not reflect lasting economic advantage and can be an added source of strain to the financial mechanism.

These comments can, of course, do nothing more than touch lightly upon some of the underlying problems that lie behind the international financial difficulties of the past year or more. Moreover, in citing these problems, I do not want to lose sight of the very real economic achievements of the postwar period for which the international monetary system can certainly take a large share of the credit. For instance, in terms of the acid test of expanding trade, increases have averaged 7 percent a year since 1950, and that upward trend continued through the crises of last year. Capital flows have expanded enormously among the industrial world, and gains in productivity and income have been both relatively steady and large by historic standards. International cooperation has, in the pressure of events, proved up to the task of containing and defusing the crises that have developed, without lasting damage to trade.

These are substantial achievements, not to be jeopardized lightly in a search for the will-of-the-wisp of some simple, sweeping reform that will easily solve all our problems. In this complex world, such a simple one-dimension solution does not exist. We cannot escape from the problems of achieving a better adjustment

process, or orderly growth in liquidity, or sustaining confidence in the dollar by increasing the monetary price of gold. Secretary Kennedy has pointed out we will not seek an answer to our problems by such a change. Nor should we be under any illusion that the opposite extreme of freely fluctuating exchange rates, in theory bringing a quick and automatic adjustment process, would necessarily be less painful or less disturbing.

But, as this committee has itself emphasized, neither can we stand aside, unwilling to examine responsible proposals for change that deal with important parts of the evident problem. We will not drift into a morass of controls, whether on capital or trade, in a misguided effort to avoid changes in financial arrangements, where change is needed.

We do not seek change for the sake of change. We want to test our ideas and plans with our friends abroad to make sure that they are responsive to the common interest in a strong and durable international monetary system. But where change is demonstrably needed and responsive to the nature of problems before us, we will be prepared to move ahead.

Some items are already on the agenda. Prompt ratification of the Special Drawing Rights, and then their early activation, are high on the list. This is the method of supplementing world liquidity agreed in the framework of the International Monetary Fund after years of patient negotiation. It is aimed at only a part—but an important part—of the problem before us. Special Drawing Rights will not cure our own balance of payments problem. But they can make a vital contribution in further undergirding the stability of the system, even in the shorter run, by providing concrete evidence of the capacity of the world community to manage consciously the supply of international liquidity in the common interest.

Progress in achieving a more equitable distribution of the balance of payments consequences of the military effort is another area in which we need now to build more permanent arrangements, learning from the experience of the past. Nontariff barriers to trade in general, and border taxes in particular, deserve—and are receiving—our close attention to see whether changes in these areas might contribute to facilitating the adjustment process.

Our already strong defenses against speculation—the network of swaps and other facilities for marshalling funds quickly at the point of need—will be maintained and adapted to changing circumstances, as necessary.

Our horizons must extend further. Discussions in this committee and elsewhere have proposed means for introducing an element of greater flexibility into exchange rates. Careful evaluation is needed of the possible contribution such changes might make to dampening speculation by increasing its costs, and to easing the longer range problems of adjustment. Your committee and others have also proposed new means of better assuring stability in the composition of reserves, and these proposals, too, need to be explored.

But I would conclude by repeating again what must be the *sine qua non* of lasting progress—a strong and respected dollar rooted in healthy, noninflationary growth at home. Without this, no monetary device can assure stability and an international financial framework conducive to economic progress. But, with inflation under control, I am confident that we can attack, forcefully and intelligently, the remaining causes of strain and tension with every prospect of success.

Exhibit 47.—Remarks by Assistant Secretary Petty, September 24, 1968, before the Fourth Institute for International Engineering, Colorado Springs, Colorado

There is an old saying, "You can change things, but you cannot change people." If I believed that adage, I would not be here now.

It is the thesis of my remarks today that until all aspects of our economy get a positive attitude and develop a balance-of-payments consciousness—and relate this consciousness daily to business and other decisions—we will not do the job that must be done in our international accounts.

There are many factors in our balance-of-payments accounts which have been with us over many years and which for planning purposes we must assume will continue to be with us. The deployment of military forces overseas as an adjunct to our defense posture persists. The events in Czechoslovakia have certainly not raised the hopes of those who sought a rapid reduction in our mili-

tary force levels in Western Europe. Nor can we go on hoping that our obligations will change soon enough and markedly enough to make substantial additional savings in other parts of the world. Reexamination of costs and commitments is a subject of continuing attention, and energetic efforts to offset these defense costs further are being pursued. Nevertheless, the unexpected may pop up—it always has for the last 25 years—and for planning purposes we must be aware of that.

Even more certain, more persistent, and almost as costly in balance-of-payments terms as our military expenditures overseas, is the cost of foreign travel by our citizens. With the next generation of aircraft not far away, with rapidly increasing disposable income in the hands of our citizens, and the never-diminishing American yearn to travel, we can count on a sizeable deficit in this area.

Capital flows, of a variety of types, are also a fixed feature of our payments picture—and they should be. However, to sustain these outflows and prevent them from increasing our deficit, our trade and services receipts must increase.

I will direct my attention this morning entirely to our trade account and to the change of attitude in the various sectors of our economy which is necessary to restore our trade account to a position of adequate surplus.

Between 1964 and 1967, our trade surplus was reduced by more than $3 billion. During these crucial 3 years our exports of manufactured goods rose by almost $4.8 billion, but our manufactured goods imports rose by $7.3 billion. Thus, $2½ billion of the $3 billion deterioration in our trade position represented the reduction in our trade surplus in manufactured goods.

In part, this development reflected the heating up of our economy at a faster pace than occurred among our principal trading partners. Also, our productive capacity was strained by the twin demands of war and a major rise in domestic incomes. There were special problems associated with strikes and threatened strikes. But, over and above these factors, there is an indication that our competitive strength is being closely challenged in some sectors and, perhaps what is most vexing, that we are letting some key sectors of domestic demand for manufactures go by default to products manufactured abroad.

I take it for granted that in any one's configuration of a sustainable balance-of-payments position for the United States the U.S. trade balance must be reestablished at least to the average level of the first half of the 1960's. This will require as broad, as extensive, as rewarding—but not as expensive—a challenge as we have in cleaning out our streams and the air we breathe, in rebuilding our slums and our schools.

There has been a lack of adequate consciousness or concern about the balance-of-payments position of the United States since World War II; and, when you consider it, this is quite understandable. Just after the War our financial assets were so great and our economic advantages so clear that the most sensible policy was to reduce the imbalance in our favor. It was at this time, 21 years ago, that we negotiated the General Agreement on Tariffs and Trade (GATT), whose rules still govern today. One can understand our negotiating posture when we recall that in 1947 the United States had a trade surplus of over $9 billion—only partially financed by Government—and around two-thirds of the monetary gold stock of the world.

This attitude lingered beyond the forties because even in the late 1950's we accepted protocols to the GATT relating to border tax adjustments which have benefited some of our major competitor countries which rely heavily on indirect taxes in their domestic tax structures.

This attitude, present in trade negotiations, held true in the financial aspects of our military negotiations as well. The terms of economic assistance given to Western Europe were such that no one could have ever given serious thought to the possibility that we might some day be concerned about our own balance-of-payments position.

Congress, too, in early postwar years was able to dispatch its business without concentrating upon the long range balance-of-payments implications of its actions. Even the regulatory agencies fell victim to the atmosphere which was as prevalent as the everyday cold. Under the circumstances, the attitude was also just about as unavoidable as the sniffles.

It was not just the public sector which assumed this relaxed posture: the private sector must be included as well. Judging from my vantage point, it is my impression that the public sector is beginning to get the word that something has to be done about creating an active export consciousness, but it is less clear to me that enough of the private sector has awakened.

I am seeking to underscore the necessity of cranking into daily business and Government decisions and the decision making process a high concern and high priority for the factors which pertain directly or indirectly to our balance of payments and more particularly to our trade account. Just as Government officials ask "What is the budgetary impact of this decision?" so must they now ask "What is the balance-of-payments impact of this decision?"

Just as corporations must consider the tax implications of a decision so should they also take into account the balance-of-payments and balance-of-trade contribution they make by their action.

Have you ever stopped to think about the economics courses and the case studies and management problems presented at graduate schools of business? Compare the number of cases studied as object lessons on market penetration through exportation as compared to case studies on the best way to leverage a given investment or to reorganize a series of foreign affiliates for greater efficiency.

In contrast, it is very common for young men in foreign countries who are entering business to take what is tantamount to an apprenticeship to work in trading companies so as to become familiar with the problems of international transactions. Indeed, such knowledge is considered to be the very basis of a successful business career in foreign firms.

Why is there not more export awareness on the part of our industry, on the part of our labor, and even a part of our own Government thinking? The index most frequently cited to illustrate this problem is the small percentage of gross national product represented by our export trade, something less than four percent. Our trading partners could cite comparable figures ranging from 15 percent to 20 percent. The American manufacturer developing goods for sale to his home market designs his product and the promotion of his product for the home market. Export sales are all too frequently marginal matters, a way to handle a little extra inventory or spill off from long production lines designed for home sales.

Labor too must do more to recognize its broad national interest as being best served through making positive contributions to the balance of trade. Labor is a vital element in any export drive. A closer identification of labor's interest with expanding export sales is warranted and must be forthcoming.

The Government is conscious of the relationship of trade policy to our export efforts. This is why the President said on January 1:

"We must now look beyond the great success of the Kennedy Round to the problems of nontariff barriers that pose a continued threat to the growth of world trade and to our competitive position.

"American commerce is at a disadvantage because of the tax systems of some of our trading partners. Some nations give across-the-board tax rebates on exports which leave their ports and impose special border tax charges on our goods entering their country.

"International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further."

I referred earlier this morning to trade and the General Agreement on Tariffs and Trade and the codification of existing trading practices which took place in 1947 at the time of the creation of GATT. The President's statement gives background to our view that the rules and practices of GATT as they pertain to border tax adjustments are inequitable. Many of you are familiar with the indirect tax system, the value added taxes and cascade taxes of Western Europe and you know that these indirect tax rates which operate anywhere in the neighborhood of 6 percent to 20 percent and higher do not apply on goods exported, and for goods imported a compensatory duty is levied so that they too bear the tax. In trade parlance these are called border tax adjustments or, for short, BTA's. The theoretical justification which explains the existing GATT rules may have been thought to have had some relevance in a seller's market, such as that which prevailed in 1947. But, to the competitive buyers market of the late 1960's, this theory is not sufficiently relevant to the fact.

The renegotiation of these provisions of GATT, signaled by the President's New Year's Day Message, is now underway. The negotiation will not be easy, but we are determined.

The creation of more equitable trading rules and less discriminatory trading practices is one vital element of a program to reestablish a substantial trade surplus, but the problems of adjusting our balance of payments to a sustainable

equilibrium are of such a persistent nature that we must also commence an energetic and conscious policy of encouraging our industry and our labor and all elements of our Government to be guided to a much more pronounced degree in their decisions by the balance-of-payments impact of their actions or of their failure to act.

Perhaps to illustrate my thinking in this regard it might be useful to go down a list of industries and point out problems and suggest approaches to solutions. I recognize that answers can quickly be offered on why such and such will not work, but is it not true that this is always the initial response to any suggestion offered in the world?

Let us look for a moment at the coal industry. Here, located in and around West Virginia, the United States has high grade, low volatile coal suitable for coking in the plants of Western Europe, Japan, and Canada. The U.S. exports each year about one-half billion dollars worth of coal but this success record is in jeopardy. First, in the face of growing competition from foreign coals, there is a possibility of increases in the delivered price of U.S. coal to foreign destinations which could have an adverse impact on the willingness of foreign purchasers to enter into long term contracts. Our coal exports already labor under the burden of higher freight rates, ranging up to 22 percent higher, for exports movements than for comparable domestic movements.

Second, the major consumers abroad are anxious to receive long term commitments for a guaranteed steady supply of U.S. coal. It is also long term purchase contracts which will cause a mine owner to open up new shafts and be in a position to sell for export. However, the increased pressure for antipollution causes a special new demand upon low volatile coal, and standards are springing up which require the use of low volatile coal. The mine owners thus become more anxious to sell in the United States under new contracts which they estimate they will obtain at substantial premiums. At the same time, market pressures do not encourage them to expand their export opportunities, although these are clearly present.

Here is a sharp conflict of national objectives; and the situation will be ripening to the point where choices and clear decisions must be made.

The automobile industry is another example of an area where new thinking is called for. Few will argue that Detroit got a hole-in-one when they waited until the early sixties to make a "small" car, or that the size of the vehicle met the demand. My point can be illustrated by the fact that Detroit called their early 1960's car a compact. The size of their compact is so far from what is needed that they have recently had to invent a new name—the subcompact—to describe the size of cars which are now entering our markets in volume from abroad. If it is argued that the numbers of man-hours and labor content in a subcompact is equal to that of a standard size vehicle and if it is argued that automation has its limits unless a large volume run can be obtained, then we must be thinking about how a large volume run can be arranged. The national interest in this issue is now such that past hesitation about taking aggressive steps either from the government or private sector should now be buried and thoughts must be directed towards how the objective may best be achieved.

Now a word about foreign direct investment and exports. The relationship of direct investment to exports will, I'm sure, continue to be a subject of debate. However, the importance of the intercompany account is well understood. When corporations introduce a new product abroad as the first phase they ordinarily use the production from the parent assembly line, which is primarily serving the U.S. market, and ship to their overseas subsidiaries—carrying the receivable on the intercompany accounts. When a given volume of sales is reached on one item of a family of products, the parent frequently shifts the manufacturing of that item to a foreign plant. A delay in the decision to shift to manufacturing these goods overseas can itself have a substantial balance-of-payments impact by maintaining exports from the United States. The decision to shift to foreign sourcing is dictated by many considerations one of which, of course, is profits. What would be the impact on our exports if decisions to shift to foreign sourcing were postponed just 9 months in some cases, longer in others? What policy attitudes and, perhaps what specific set of actions need be taken to provide a positive stimulant to influence this sort of business decision?

It has always been a source of bewilderment to me that the United States is capable of building the largest and the most efficient air frames in the world while at the same time we find our shipyards noncompetitive frequently even

with a construction differential subsidy as high as 50 percent. Probing further one finds that the annual expenditures on capital equipment by some of our major shipbuilding companies is embarrassingly small. Efforts to change this situation have encountered major opposition from those satisfied with the status quo. It is incomprehensible to me that a country with something like 8,000 miles of shoreline, a country supplying a sixth of the world's goods, a country whose Navy is the first line of defense of the world, a country with engineering and technical skills that are the envy of others is incapable of resolving the conflicting interests involved. We should clearly be able to develop a national maritime policy capable of sustaining a substantial U.S. flag fleet where the increased vessels under U.S. registry could easily increase the jobs at sea, even though traditional manning levels would have to be adapted to the new equipment. Perhaps only one-twentieth of the energy and imagination it would take to get us to the moon could do the job. Our inadequate maritime position costs us dearly in balance-of-payments terms each year.

There is another natural resource of the United States, the development of which has not been sufficiently balanced for its own good and for the good of our balance of payments. This involves the timber reserves particularly those of the Pacific Northwest and Alaska. The situation has become so distorted that the exportation of raw logs has been restricted.

Expert testimony recently revealed that we have substantial areas of timber on public land that need opening up to allow the Forest Service to do the kind of job it wants to do in salvaging the mortality in old stands where we are losing a lot of timber every year. Intensified forest management would significantly increase the allowable cut to meet both domestic and export needs. In fact, because timber prices have gone up at least in part due to export demand, private industrial forestry farmers have increased and intensified their forestry practices tremendously in thinning, in salvage, in roadbuilding, in fertilizing, and in their replanting with master trees that grow faster. This is being done because it is profitable for them to do so now.

Increased emphasis on production of lumber and processed timber products for the export market would also produce greater balance-of-payments benefits.

I recognize that intensified forest management not only calls for more immediate capital investment both public and private but also for longer term planning. The need here is clearly for an overall approach to achieve our long-range objective of a strong and prosperous industry, capable of supplying increasing long term domestic demands, but with a major export (processed primarily—but raw logs, too) orientation.

A consultant firm undertook a study for the Office of Science and Technology in the Executive Office of the President. Its purpose was to assemble and describe within an overall framework the energy policy questions which must be studied and analyzed. This work was initiated in response to President Johnson's January 30, 1967, injunction that "We must better understand our future needs and resources. We must make certain our policies are directed towards achieving these needs and developing these resources." In undertaking this energy research and in making recommendations in the future on energy policies, ample consideration must be made of the balance-of-payments implications of the basic long term decisions which are involved. As one aspect of our national interest it is appropriate to include this consideration in our policy formulation, just as the various regulatory agencies are now also weighing the relevant balance-of-payments factors, while fulfilling their public charge of making their decisions in light of the national interest.

I have discussed primarily the export market and the efforts that must be made there. But we have international business opportunities at home, too!

Our consumers at home have not ignored the growth of world trade. They have selected well-designed Italian shirts, favored the small foreign cars so well-tailored to our urban and commuter needs, turned to foreign machinery in moments when the growing domestic demand made deliveries slow at home and these goods have also slowed the rate of inflation. Indeed, these imports have grown at such a rate that there are those who argue that they should be halted or severely restricted. Should we not rather respond through private channels by their increasing efforts to license for production here at home many of these products which are now imported; could we not supply from the genius of our own industry the consumer demands which are obviously here? Should we not invite foreign capital to enjoy the fruits of our economy by pro-

ducing directly on this continent? This constructive approach would create new jobs and new skills, reward imagination and hard work and serve well the needs of our country.

Our small business associations, our regional economic assistance, our State and municipal authorities, our financial institutions, our labor unions, our industrial leaders can all concentrate on this objective. Picture, for example, the contribution that could be made by producing in or near our depressed urban areas to satisfy demands now met from abroad. Unskilled hands could be trained and put to work to supply these goods. These efforts could be assisted by industry which could get the manufacturing license from abroad, or perhaps the foreign supplier could be encouraged to invest directly in our great economy. This would permit our urban needs to be well served by the established demand for foreign designed products, in a manner fully consistent with our tradition which fosters the free flow of goods and capital.

What my comments this morning have attempted to emphasize is that there has existed little concern in most sectors of the United States over the years with respect to the balance of payments. Consequently, many factors have evolved in our economy in a way that does not serve our nation—or the domestic industry—well enough in the present world and in the world that will prevail in the future. I have no doubt in my mind that ways can be found in each of these areas where change is needed so that a viable and efficient industry may be strengthened—and in some cases fostered—

—in a way fully consistent with our international trading objectives,

—in a way fully consistent with our domestic objectives with respect to employment,

—in a way fully consistent with our price stability standards,

—while meeting the tests of profitability sufficient to attract new equity and new investment from private investors.

Indeed, the balance-of-payments discipline, coupled with an expansive trading policy, with a longrun objective of increased Federal revenues coming from profitable industries and well employed labor, can act as a vital catalyst in creating a balanced approach to a viable trading position. This balance-of-payments criterion would serve to develop an overall program that would otherwise result in fractional attempts at solutions to comprehensive problems.

This approach provides the surest, the most economic and the most durable way of maintaining a large and strong trade surplus.

Exhibit 48.—Remarks by Assistant Secretary Petty, November 20, 1968, prepared for delivery to the Canadian Tax Foundation 21st Annual Conference, Toronto, Canada, on border tax adjustments and the General Agreement on Tariffs and Trade [1]

Introduction

Introducing my subject has been made immeasurably easier as a result of a recent article in the September–October issue of "The Canadian Tax Journal." [2] Mr. Robert Latimer, the author, has done an admirable job in defining "The Border Tax Adjustment Question," and lucidly pointing up the issues. His article provides an added timeliness to the need I see for a discussion of this subject.

At the outset, let me say that the importance the United States attaches to the issue of border tax adjustments was signaled by President Johnson in his 1968 New Year's Day balance of payments message, when he declared:

"In the Kennedy Round, we climaxed three decades of intensive effort to achieve the greatest reduction in tariff barriers in all the history of trade negotiations. Trade liberalization remains the basic policy of the United States.

"We must now look beyond the great success of the Kennedy Round to the problems of nontariff barriers that pose a continued threat to the growth of world trade and to our competitive position.

"American commerce is at a disadvantage because of the tax system of some of our trading partners. Some nations give across-the-board rebates on exports

[1] Although Mr. Petty was unable to attend the conference, this paper was published in the "Report of Proceedings of the Twenty-first Tax Conference convened by the Canadian Tax Foundation, November 18–19–20, 1968," pages 379–389.

[2] Robert Latimer, "The Border Tax Adjustment Question" "The Canadian Tax Journal" (September–October 1968).

which leave their ports and impose special border tax charges on our goods entering their country.

"International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further."

I believe it would be useful to provide the background for this passage. First, let me review the history of the border tax adjustment problem, and then go on to bring this subject up to date by discussing the multilateral negotiations now underway in GATT.

Background

The General Agreement on Tariffs and Trade was intended to institutionalize the system of international trade much as the International Monetary Fund was designed to provide rules and order to the international financial system. Both sprang forth from the despair of war and the hopes kindled by the prospects of peace. Each has made a substantial contribution to economic growth, trade and prosperity that exceeded expectations.

However, the world of 1968 is a different world than that of 1946. New demands are now being made of these tried institutions and some are being met. We are now in the process, for instance, of amending the articles of the IMF to make provision for Special Drawing Rights which will better meet the international monetary needs of the future. A fresh look at the GATT is called for, too.

Highest on the priority list for this fresh look are those provisions pertaining to border taxes. The problem here, in brief, is this:

The GATT permits member countries to provide a full rebate for indirect taxes levied on their exports and to impose equivalent border taxes on imports. On the other hand, GATT prohibits any rebate or import levy for direct taxes.

The basic premise underlying these provisions is now being widely questioned. At one time, theorists argued that the burden or incidence of indirect taxes was entirely passed on to consumers, while direct taxes were wholly absorbed by producers. The GATT rules reflect this supposition. However, it is increasingly recognized today that this is not the case in actual practice and that as a result the border tax adjustment rules of GATT bestow trading advantages on countries which employ multistage indirect taxes.

History

The provisions in GATT relevant to border taxes, basically Articles II, III and XVI, are drawn from the Havana Charter of the 1940's which was intended to found the International Trade Organization. These provisions were themselves either a compromise (for example, Article XVI) or were adapted from provisions of numerous bilateral trade treaties, including especially the U.S.–Canada reciprocal trade agreement of the mid-thirties.[1] There is no unified section of the GATT which deals exclusively with border taxes and it is quite clear that the provisions of the GATT which cover border tax adjustments were not the product of a carefully reasoned theory, or of experience molded in the crucible of extensive usage. The lack of precise or concentrated thinking about the border tax problem is illustrated by the absence of explicit definitions of key concepts.[2]

In view of the symmetry implied in border tax adjustments, an interesting historical note is that the provisions on the compensatory tax on imports and the relief of indirect taxes on exports developed quite separately. The GATT rules concerning these two elements of border tax adjustments are found in several articles of the General Agreement and in related interpretive notes and Working Party reports. The basis for the application of compensatory taxes on imports is found in Articles III:2 and II:2(a), which deal primarily with the relationship between internal taxation and imports. The provision with respect to exports is found in Article XVI, which deals with subsidies. This is hardly the handiwork of a drafter intent upon transcribing the destination principle of taxation into a permanent international agreement.

Import tax burdens.—Article III:2 limits the imposition of internal charges on imported goods to the amount of those charges applied directly or indirectly to like domestic products. By reference to Article III:1, provision is made that

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[1] 49 Stat. 3960 (1936). Effective May 14, 1936.

[2] For example, the meaning of the phrase linking the import charge at the border with "charge * * * applied, directly, or indirectly, to like domestic products" was not given.

such charges on imports shall not be applied "so as to afford protection to domestic production." Article II:2(a) explicitly provides that a limitation on increasing the tariff on goods bound through international agreement does not prevent the imposition or increase of compensatory border taxes.

Export tax relief.—The 1946–47 version of Article XVI only contained a notification and consultation procedure in cases where the trade effects of subsidies are considered to be serious. It did not define subsidies nor how to limit them.

It was not until the GATT Contracting Parties reviewed the various articles of the General Agreement in 1954–55 that a partially successful effort was made to answer these two questions. In reaching partial agreement a rule with respect to export tax relief was made by the following interpretive note:

"The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be claimed to be a subsidy."

While the focus of this change limited the definition of an export subsidy there was, however, no elimination of subsidies.[1] Instead it was agreed that there would be no introduction of new, nor extension of existing, subsidies on manufactured goods.

The long negotiation to find language to limit the use under GATT of export subsidies achieved a breakthrough in 1960 when the United States and the other industrialized countries in the GATT agreed in a Declaration to cease granting export subsidies on manufactured products.[2] The Working Party report which constituted the basis for the Declaration contained a list of measures considered as forms of export subsidies. By indirection, this extended the interpretive note to Article XVI by excluding from the definition of an export subsidy the rebating or exemption of multistage indirect taxes. Clearly, the implications of this Declaration were not adequately considered by the United States. Part of the reason was, perhaps, due to political considerations: the United States did not want to appear to be raising obstacles to the tax harmonization objectives of the European Common Market. Nevertheless, there must have been some concern with the interpretation of this article because a special provision for review of the operation of the provisions of Article XVI were inserted at the Review Session. The drafters did not seem content to rely on Article XXX which provides for the review and amendment of all of the GATT Articles.

Conclusions on history

This brief review of the GATT articles demonstrates that there is no consistent rationale behind the GATT rules on border tax adjustments, nor clear-cut guidance on the meaning of the GATT provisions. Articles II and III were incorporated almost in their entirety from existing practices, probably modeled after a United States-Canadian commercial treaty.[3] The separate treatment of the import duties and the history of clarifying the status of export remissions confirms that no consistent consideration was given to this subject; certainly no specific economic theory was used as the underpinning for the treatment of border tax adjustments. Instead, it would appear that the matter of "border tax rules" was not even a contentious issue. Rather, these rules simply codified certain practices.

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[1] Although no attempt was made to define what was meant by duties or taxes borne by the like product, examination of the discussion at the Review Session related to Article VII (dealing with customs valuation) provides some clarification. During these discussions it was agreed that the note to Article XVI would permit the exemption from, or remission of:

"Only (i) internal taxes of the kind which are levied directly on the goods exported (or directly on the materials going into the manufacture of such goods), as distinct from (ii) other taxes (income tax, etc.)".

Although this provides some guidance on the question of direct and indirect taxes, it does not indicate the status of "hidden taxes" (i.e., those not imposed on the exported product itself or on the materials incorporated in the product).

[2] The 1960 GATT Working Party on Subsidies Report stated that the governments prepared to accept this Declaration agreed that, for the purpose of that Declaration a list of certain enumerated practices "generally are to be considered as subsidies in the sense of Article XVI:4." This Report, which contained the direct/indirect tax dichotomy in the list of practices was adopted by the Contracting Parties, the most important representative body within the GATT organizational structure. However, the Contracting Parties did provide for a review of the provisions of Article XVI. Paragraph 5 of Article XVI states:

"The Contracting Parties shall review the operation of the provisions of this Article from time to time with a view of examining its effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interest of Contracting Parties."

[3] During the 1930's, when this treaty was written, exchange rates fluctuated. There was probably little concern about the price effect of the import adjustment as such effects would be absorbed by exchange rate changes.

It is not surprising that the drafters of the GATT were willing to accept the status quo. Problems quite apart from the question of border tax adjustments demanded the attention of the drafters. In a postwar, exchange-control world, where fixed exchange rates were at best approximations of reality, concern voiced about the discrimination that would arise if the world shifted to a buyer's market would probably have been met by some retort such as "we'll worry about that problem if and when it ever arises." Little wonder. In the late 1940's and early 1950's, border tax rates were low—in the range of 2 percent to 4 percent—and limited to around one-sixth of the goods traded—and then only in the case of a few nations. Furthermore, a seller's market existed in which demand was highly unresponsive to small price variations. Finally, the $10 billion commercial trade surplus of the United States in 1947 must have had an effect on the attitude of the U.S. negotiators. This is best illustrated by the then prevalent and understandable U.S. policy of deliberately encouraging a transfer of financial assets to Western Europe in order to facilitate European reconstruction.

1953 OEEC review

As early as 1953 there began to be some recognition of the fact that border tax adjustments could create advantages for nations using them. The likelihood of this occurring tended to grow as other barriers to trade fell, and the adjustments were substantially increased. This recognition came in the Working Party on Artificial Aids to Exporters, part of the OEEC Steering Board for Trade. This Working Party discussed the possible trade diversionary effect of the introduction of the French value-added tax. Some opposing views existed and one of the participants (and then committee chairman) offered a proposal designed to limit the distortion to trade from full tax remissions. The proposal was an attempt to reach a compromise between divergent views and to prevent a disastrous race between OEEC countries in the area of fiscal incentives. The basic provisions of the proposal were:

(1) Full relief of exported goods from a single-stage indirect tax would be permitted;

(2) A limitation would be placed on the total amount of relief exported goods could obtain from other forms of indirect taxes and from direct taxes. The limit would be set as a percentage of the value of the goods at the point of export:

(3) A transition period would be established in order to permit nations to reach the common limit; and

(4) A consultation procedure would be established.

It is interesting to note that this proposal explicitly recognizes a divergence of views concerning (a) the effects of remissions of direct and indirect taxes; (b) the difference between single-stage and multistage indirect taxes; and (c) the need for some limitation to these adjustments. The suggested solution presented a pragmatic and arbitrary solution to a difficult theoretical and political problem.

Unfortunately, there was not enough awareness of the significance of the proposal, and the other members of the Working Party were unwilling to moderate their positions.

OECD border tax consultations

In 1963, U.S. concern about the trade effects of border taxes was further aroused by the decision of the member states of the EEC to harmonize their tax systems, by adopting the value-added tax (TVA). The U.S. Government requested the OECD to undertake a careful and comprehensive study of border tax adjustments. In making the proposal, the United States stated: "A study of this subject is particularly timely at the present moment. A number of countries which impose turnover tax adjustments at the border are contemplating changes in the level of such compensatory adjustments, others are considering a change in the method of applying the tax (e.g., a change from the cascade to a value-added type) and some countries which heretofore have not employed a general sales tax by the central government are considering introducing it * * *"

In order to create a better atmosphere in which to review border tax adjustments, the United States sought agreement in the OECD for a standstill (i.e., a temporary agreement not to make border tax changes). The Common Market

countries opposed the idea, arguing that agreement on a standstill would interfere with their objective of attaining a harmonized tax system by 1970. They were, nevertheless, prepared to agree to a notification procedure which would keep the OECD countries informed about actual and contemplated changes in border tax adjustments. They also were prepared to agree to consultation in the OECD on these changes. This notification procedure was adopted as a second best solution.

In 1967, at the request of the United States, an *ad hoc* group of the OECD undertook a consultation with Germany on the general trade and payments effects of the German Government's announced switch to a value-added tax system scheduled for January 1, 1968. A series of carefully prepared meetings followed. The discussions in this OECD group revealed a considerable difference of opinion on the effects on trade of border tax adjustments. The German delegation not only argued that the TVA was perfectly trade neutral but also that the shift from the then existing cascade type indirect tax to a TVA system would not appreciably improve Germany's competitive position. This contention was supported by Germany's EC partners. This is curious, because during this same period three of these countries—France, Belgium, and the Netherlands—were simultaneously moving to increase the level of their own border tax adjustments for the publicly acknowledged purpose of combating the impact on their trade of the German changeover.[1] Ironically, the notification procedure worked best for those countries which felt no necessity for it.

This explicit and public recognition by Common Market governments of the trade effects of the German changeover of their indirect tax systems destroyed the German contention that the shift was of no significance to international trade."

Testimony of European businessmen further demonstrated the true picture. The Business and Advisory Committee (BIAC) to the OECD, gave practical evidence of the serious limitations of the theory underlying border tax adjustments.[2] Briefly, the essence of their views was that "in a strongly competitive situation the prices obtainable—and hence the degrees of tax shifting—are substantially determined by the market itself." If this report is correctly interpreted, they hold that there are a great variety and interdependence of factors which influence tax shifting, but primary importance is attached to the market situation. Of course, if economic conditions are buoyant, there may be a greater possibility of tax shifting than in a depressed and declining economy, just as there is a greater possibility of increasing profits. It seems to me that even though it is extremely difficult, if not impossible, to measure the degree of tax shifting, it is grossly inequitable to maintain, as the GATT rules do, that indirect taxes are always fully shifted forward into product prices. By the same token it is wrong to hold that no direct taxes are ever shifted—forward—to any degree. Perhaps most significant, and for the economist most difficult to measure, is the fact that today we have much more of a buyer's market than existed during World War II and immediately thereafter when the GATT rules were drafted. Not only is there increased competition among firms, but the freer trading world, fostered by GATT, advances substantially the size and number of competitors. Moreover, the development of competitive products (e.g., steel and aluminum) expands the range of competition.

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[1] See e.g., (a) French Finance Minister Debre's speech to the OECD Ministerial Meeting, Nov. 30, 1967; (b) Dutch Finance Minister DeBlock, Memorandum to the Dutch Parliament, Oct. 4, 1967; and (c) Belgian Cabinet Communique following their meeting at Knakke. To illustrate the nature of these comments the following is an excerpt from DeBlock's statement:

"They (ed: the government) feel, however, that Dutch industries are right in fearing that they will be adversely affected as a consequence of such a change (ed: adoption of German TVA) in the situation in Germany. * * * there is sufficient reason to take legislative measures ensuring that international competitive position of Dutch industry does not deteriorate too much."

These related actions demonstrate the tendency towards proliferation inherent in the present GATT rules. The absence of a limitation invites other countries to take similar action.

In a recent official paper, the German government has in fact admitted that the changeover to the value added tax had a substantial effect on export prices.

"* * * in contrast to earlier Government expectations, the changeover to the value-added tax system after all turned out to favor exports from the point of view of prices. At any rate, average export prices declined by 2.2 percent from January to September."

Ministry of Economics, "The Necessity for Protection Against External Economic Influences" Section 1, informal translation by U.S. Embassy, Bonn, Germany, Nov. 29, 1968.

[2] Unpublished report dated June 1967.

Mounting concern in the United States

In the United States, concern about the adverse trade effects of border tax adjustments has been mounting steadily, not only in the executive branch of the U.S. Government but in industry and the Congress as well.

Individual companies have spent considerable time and effort analyzing the effect of changes in border tax adjustments on their exports. Industry associations, such as the Manufacturing Chemists Association (MCA) and the National Association of Manufacturers (NAM), to name but two, also have taken a hard look at the problem.[1] And the key congressional committees concerned with this problem have looked into this subject. In the statements recently submitted to the House Ways and Means Committee the two trade associations mentioned above pointed to the increasing awareness that U.S. exporters clearly face a competitive disadvantage arising from the GATT rules on border tax adjustments.[2]

In another indication of concern, the Action Committee on Taxation of the National Export Expansion Council, early in 1966, expressed the view that the GATT rules on border taxes "are discriminatory against the United States"[3] and specifically called for a renegotiation of GATT.

As for America's position at intergovernmental meetings, the U.S. representative to the OECD Consultations on Germany repeatedly voiced concern about the trade effects of the changeovers in indirect tax systems occasioned by the EC tax harmonization. He pointed out that increases in border tax adjustments would compound the trade advantages gained by the indirect-tax countries. Moreover, he said, for a country with a large balance of payments surplus to undertake a changeover at that time was directly contrary to its responsibility to the better working of the process by which international balance of payments adjustment is achieved. The August 1966 report of Working Party 3 of the Economic Policy Committee of the OECD recognized the responsibility of balance of payments surplus countries, and on this particular issue it said:

"It was noted that on occasions when the national structure or level of indirect taxation was being reformed, the accompanying change in export rebates or import levies or other adjustments can have an impact on international trade, and that further consideration might be given to the question whether countries could undertake to take account of their prevailing balance of payments situation in deciding on the timing of such changes in 'border tax' adjustments."[4]

Germany's January 1, 1968, changeover from a cascade type turnover tax with a rate averaging 4 percent on each turnover to a value-added tax of 10 percent on most commodities perhaps did more than any other single act to solidify a U.S. Government attitude that more equity must be achieved in the GATT rules as they pertain to border taxes.[5]

Therefore, the United States pursued the issue in the GATT forum itself. Ambassador Roth, the President's Special Trade Representative, called attention to our serious concern over nontariff barriers in his statement at the GATT Ministerial meeting on November 23. These measures adversely affected our trade, and he asked GATT to press ahead and organize itself for a timely resolution of this problem. This initiative resulted in the GATT Ministerial Meeting agreeing to the formation of groups to deal with:

(1) Nontariff Barriers
(2) Border Taxes
(3) Subsidies and Countervailing Duties

It was believed that with these groups working concurrently, each at a pace suited to its own purpose, a framework conducive to achievement would be established.

On January 1, 1968, President Johnson called attention to the disadvantage to U.S. trade posed by the provisions of the GATT rules on border tax levies and rebates and called for adjustment of these rules. In March 1968, the United

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[1] The Logic of the Border Tax Mechanism, Government Finance Division, National Association of Manufactures, October 1965.
[2] Hearings before the Committee on Ways and Means, House of Representatives, 90th Congress, Part 10, p. 4489.
[3] Taxation and Exports, Action Committee of the NEEC, February 1966, p. 17.
[4] Organization for Economic Cooperation and Development, "The Balance of Payments Adjustment Process," A Report by Working Party 3 of the Economic Policy Committee, (Paris: OECD, 1966), pp. 23–24.
[5] See U.S. Treasury Department, "Maintaining the Strength of the United States Dollar in A Strong Free World Economy" (Washington: Government Printing Office, 1968), p. 74.

States reviewed the problem with the GATT Council and established the terms of reference for a Working Party to examine the problem of border tax adjustments. On April 30, this Working Party began discussions. It is now underway in its task.

GATT negotiations

At the initial meeting of the Working Party, April 30–May 2, the United States raised three general problems which we believed should be corrected. First, the GATT border tax rules are inequitable. We questioned whether there should be any border adjustments to compensate for differences in taxation. If there must be border adjustments, then they should be designed to equate the price effect of all taxes—direct as well as indirect. The current GATT rules on border tax practices, limiting adjustment to indirect taxes, (and then 100 percent) do not reflect adequately this principle.

The second general problem concerns the trade diversionary effect of changes in border adjustments; in addition, it is concerned with the relationship of the timing of such changes to the balance of payments adjustment process.

The third area of concern is the ambiguity in the present rules which allows protective national practices to be justified by interpretations that are at times self-serving. This ambiguity illustrates the need for more precise definitions and a code of practices.

Elaborating on the first general problem associated with the GATT, the present border adjustment rules apply the origin principle to direct taxes and the destination principle to indirect taxes.[1] Under the destination principle products are taxed at the point of consumption. Since exported products are consumed abroad they should not pay the indirect tax that would pertain if the goods were consumed at home. Therefore, exports are relieved of the indirect tax burden. Imported goods, on the other hand according to the destination principle, should carry the same indirect tax burden to avoid a "privileged position" over goods produced domestically. Accordingly, tax frontiers are established at the border. On the other hand, it is argued that regardless of the rate of direct taxes, the sales prices of the products are unaffected. Consequently, border adjustments would not be justified, even if the destination principle were employed for direct taxes because the direct tax is presumably not passed on to the point of consumption.

In contrast, the origin principle states that goods should be taxed at the point of production; thus, border adjustments are not permitted. It is the origin principle toward which the Common Market is moving for transactions between member states. Interestingly, the Common Market decision to harmonize tax systems and eventually to adopt a common tax system was based on the desire to eliminate tax frontiers. The argument was advanced that such frontiers constitute both a psychological and a real obstacle to a truly free exchange of goods and services.

The origin principle must not be overlooked in seeking a solution to the border tax problem. Adjusting for indirect taxes means that one aspect of government policy is singled out for special treatment. There are no adjustments for a wide range of other government measures which directly affect prices. Nor are there adjustments for many forms of taxation which affect prices. Frequently, government economic policies affect private industry and trade but they are not necessarily accompanied by offsetting action. Moreover, many of the governmental services financed by indirect taxes may be provided through the private sector in other countries. To this extent, the border tax adjustment rules have an influence on the distribution of activities between the government and private sector. This is a wholly inappropriate byproduct of the GATT rules. Only in the case of indirect taxes is there an institutionalized provision for offset.

Modern economic theory suggests that the distinction implicit in the GATT treatment of direct and indirect taxes is an extreme and arbitrary assumption which does not stand the test of economic reality.[2] While economists and businessmen may disagree on the extent of the forward shifting of indirect and

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[1] For a brief discussion of the destination and origin principles, see Carl S. Shoup, "Indirect and Direct Taxes and Their Influence on International Trade," a paper submitted to the House Ways and Means Committee, June 1964.

[2] The material on shifting of general taxes has become quite extensive. For a review of the debate, see John F. Due, "Sales Taxation and the Consumer", "American Economic Review" (December 1963), pp. 1073–84.

direct taxes, they do agree that the extreme assumptions which are necessary to make the present GATT rules trade neutral are an inadequate approximation of reality. Therefore, a border adjustment equivalent to the full internal indirect tax tends to stimulate exports and provide protection against imports.[1] In brief, the present provisions of the GATT divert trade and thereby disadvantage countries such as the United States and Canada which rely primarily on direct taxes.

Not only are the GATT rules unfair, they are illogical and unreasonable. There is a contradiction between the way in which direct taxes are treated in the provisions relating to subsidies and in the provision relating to border tax adjustments on the import side. If the remission of direct taxes is considered a subsidy, this is presumably because it is felt that this would have an effect on the price of the exported products. But if direct taxes had an effect on price, it could be argued that adjustments should be made in respect to them at the border. Furthermore, there should be no presumptions about the administration of direct tax remissions being more difficult than indirect tax remissions and thus no additional concern about the price effects of the former due to administrative problems.

The second general problem concerns changes by a nation in its border tax adjustment practices. There are three categories of changes: (1) When the level of the indirect tax within the country and at the border is changed by the same amount. Germany's 1 percent increase on July 1 is a case in point; (2) When the amount of adjustment at the border is different from the domestic level of the tax and this difference is "corrected." (A level of adjustment lower than the tax is "under compensation;" a higher level of adjustment is "over compensation".) Belgium's increase in border adjustments in 1967 and 1968 are examples of a country moving from "under compensation" to "full compensation." The German border tax change in November 1968 is an example of a move from "full compensation" to "under compensation." It is argued that the German change on January 1, 1968, included a few cases of "over compensation" going to "full compensation;" (3) The third involves the changeover resulting from the adoption of a new type of indirect tax. Germany did this on January 1, 1968, and the Netherlands will do it a year later.

Within the three categories mentioned, changing the degree of adjustment at the border without commensurate changes in the relevant indirect tax brings about the most striking effects on trade. Other changes are considerably more difficult to measure—but frequently no less significant in their impact upon trade.

The increasing use of border adjustments suggests, however, that governments actually believe there are trade effects. In any case, changes in border tax adjustments to eliminate "under compensation" clearly have favorable trade effects on the country making the change. The increase in the export rebate and import surcharge can be looked at as having exactly the same effect as a devaluation on the trade account—it improves the competitive position of the country making the change and thereby strengthens their trade account. Such actions by a trade surplus country exacerbate the problems of countries working towards balance of payments equilibrium and are directly counter to the surplus countries' responsibilities to assist the international adjustment process.

The third general problem with the GATT border tax adjustment rules concerns the extent to which the lack of trade neutrality is aggravated by techniques used in the administration of border tax adjustments. For example, (a) the necessity of using averaging techniques to determine the amount of adjustments, as is the case in any cascade system;[2] (b) by the inclusion of secondary indirect taxes (*taxes occultes*) which are not "borne by the produce," in border adjustments; and (c) the arbitrary assumption of tax and subsidy allocation on grain sales within the EC on agricultural products. These technical determinations are left open to national judgment because of the lack of precision in the GATT rules and by the complexity of the issues. Assumptions employed by fiscal and trade technicians are not likely to err on the side of trade neutrality.

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[1] Stanley S. Surrey, "Implications of Tax Harmonization in the European Common Market," a speech before the National Industrial Conference Board, New York (February 1968).

[2] In a cascade system, the tax burden on a product depends in part on the number of transactions it undergoes. As this will vary from product to product, and even for different units of the same product, there is no single estimate of burden which can be universally applied. Therefore averages are used.

Due to the complexity of manufacturing processes, the difficulty of cost accounting and the varying tax systems of the countries making border adjustments it is impossible to accurately determine the indirect tax actually borne by domestic goods. The "real number" is a changing number in any event—by product and in response to market factors. This is likely to be more true of a multistage turnover tax than a single stage retail tax. As products undergo varying stages of production, the tax burden will vary between commodities. In order to avoid the task of ascertaining the tax burden on each commodity, averages are used to determine a mean rate for a commodity class and the appropriate border adjustment. By their very nature, averages result in trade distortion as some commodities receive adjustments in excess of the domestic tax burden while other commodities are "under compensated."

The GATT rules permit adjustment for taxes levied on or borne by goods. Although there is not much confusion about the fact that GATT, as presently drafted, classifies corporate income taxes as direct, there is a large controversy about the status of other taxes. Many countries adjust for taxes on such items as gasoline, general overhead expenses, capital, etc., taxes which are difficult to consider as levied on a specific product. We believe the arbitrary adjustment for such taxes, often referred to as *taxe occulte*, is contrary to the GATT rules and trade diversionary in effect.

The combination of erroneous shifting assumptions, *taxe occulte*, averaging and changes in border tax adjustments combine to make the present GATT rules far from trade neutral; in fact, they are damaging to your trade and ours.[1]

The obvious next question is what alternatives exist which are more neutral and less discriminatory.

Approaches to solutions

One approach that has been suggested is that the United States not seek a change in the GATT rules but, instead, adopt its own Federal indirect tax system.

Here, I concur with Mr. Latimer's statement in his article in the Canadian Tax Journal which I referred to at the outset of my remarks. He said:

"The essence of the border tax debate is that, countries should be at liberty to choose the structure and level of taxation consistent with their notions of economic growth and tax equity, without at the same time prejudicing their international trading position."[2]

As a second approach, there have been some who argue that the United States should disregard the GATT and make similar border adjustments, with or without reference to our direct taxes. GATT is too vital a multilateral institution for such a course of action to recommend itself.

A third approach involves multilateral negotiations to reduce the inequities in the present rules, while harmonizing international tax practices as they pertain to trade between nations. In the last analysis, what is needed is a sane, simple and practical way to resolve this problem. A workable set of rules can be devised and these rules could promote the objectives of the GATT. Such an approach would be in the greater interests of the whole trading community in serving to avoid practices prejudicial to the trade of any contracting party.

Within this framework, the use of the origin principle in trading has definite attraction. It would eliminate an unnecessary barrier to trade, remove a discriminatory feature of the rules governing trade, and provide a consistent treatment for the trade effects of government tax and economic policy. Whatever its attractions—and I think they are many—the origin principle poses serious problems. The most prominent of these is how do you implement the principle in the fixed exchange rate system we now have.

Other approaches, of course, could be based on the destination principle. However, under the present rules we have seen broadly increased uses of border tax adjustments resulting from changeovers in tax systems. The present rules have encouraged the adoption by other countries of indirect taxes permitting border tax adjustments. The proliferation of "adjustable" indirect tax changes is start-

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[1] For a theoretical discussion of the trade effects of border taxes, see Richard Musgrave and Peggy Richman, Allocation Aspects, Domestic and International, in John Due, editor, The Role of Direct and Indirect Taxes in the Federal Revenue System (Princeton: Princeton University Press, 1964).

[2] Robert Latimer, "The Border Tax Adjustment Question," "The Canadian Tax Journal" (September–October 1968, page 409).

ling, and in trade terms frightening. Moreover, present rules provide no limit whatsoever to the degree of "adjustment" permitted for indirect taxes. If allowed to continue unrestrained, this proliferation will work to undo much of the progress towards freer international movement of goods, services and capital.

In conclusion, the GATT rules must be improved in such a way that they do not permit nations to achieve a trade benefit through the adoption of one domestic tax system over another. A pragmatic and equitable solution must emerge from the GATT negotiations now in progress. Our trading partners did not agree to a "standstill" on new border tax adjustments while the existing rules were under discussion. The result has been that adjustments have continued to mount, rewarding protectionist sponsors and arousing the envy of others who might be tempted to take similar trade restrictive actions. There is no longer time for drawn-out deliberations. The proliferation of changes and new border taxes gives great urgency to the GATT work.

Exhibit 49.—First semiannual report on U.S. purchases and sales of gold and the state of the U.S. gold stock, covering the period January 1–June 30, 1968 (Letter from Acting Secretary Barr to President of the Senate and Speaker of the House)

September 6, 1968.

DEAR SIRS: In accordance with Secretary Fowler's letter of March 6, 1968, to the Chairman of the Senate Committee on Banking and Currency, I am submitting the following data on U.S. purchases and sales of gold and the state of the U.S. gold stock for the semiannual period January 1, 1968 to June 30, 1968. There will be continuing reports of this nature on or about the first of September and the first of March each year.

The accompanying two tables list, by country, for each quarter, the net monetary purchases and sales of gold made by the United States. In general the data require no elaboration but a few comments may be in order.

The first point I should note is that for the first quarter of 1968 the figure of approximately $900 million shown as sales of gold to the United Kingdom does not represent purchases by the United Kingdom for its own account but purchases to replenish the U.S. share of gold losses suffered by the Bank of England in its capacity as agent for the gold pool countries in support of the price of gold in the London Market. Such market intervention ceased after March 14, 1968 and subsequent data therefore represent only transactions with the United Kingdom for its own account.

In this connection, I also call attention to the entry entitled "Domestic transactions" at the bottom of table I. This entry represents the amount of monetary gold, net of purchases of newly mined or other gold in private hands, sold to licensed users during the period. Both sales and purchases to or from private sources ceased after the separation of the monetary stocks of gold from "commodity" gold called for in the Washington Communique of March 17, 1968, issued by the gold pool countries. There were consequently no such transactions in the second quarter and entries under this heading should henceforth be minimal and of a technical nature only.

Finally, I would like to call attention to transactions involving, directly or indirectly, the International Monetary Fund. These fall into two categories—one, those relating to the general quota increase of 1966 and the other day-to-day transactions calling for payment of gold by various countries to the IMF.

Transactions of the first type are reflected on table II, which shows cumulative data from the inception of such transactions as well as those for the first two quarters of 1968. These so-called mitigation transactions reflect gold sales by the United States to various countries to be used for the payment of some or all of the 25 percent portion of their quota increase required to be paid to the IMF in gold. Since these transactions would have placed an exceptionally heavy and concentrated burden on the U.S. gold stocks during the period in which these payments were being made, the IMF resolved to alleviate this burden by depositing equal amounts of gold back with the United States. Such deposits are to be withdrawn over time so as to relieve the concentrated losses which would otherwise have been placed on the U.S. gold stock. The first withdrawal, in the amount of $17 million, took place in June of 1968 in connection with the use by the IMF of $182 million of its gold to acquire currencies to be used in the drawing made by France from the IMF.

The mitigated transactions are shown on a separate table since they are offset by an equivalent IMF deposit and have no net effect on the U.S. gold stock. The withdrawal of mitigation deposits by the IMF is, however, shown on table I as they do decrease the stock.

The other type of transactions involving the IMF are similar in that they represent gold sales by the United States to countries which pay the gold to the IMF to cover charges, repayments, individual quota increases, etc., required to be paid in gold. They differ, however, in that there is no offsetting mitigation deposit by the IMF. Since they represent an immediate drain on the U.S. gold stock, they are carried in table I. They are generally for relatively small amounts but do account for the majority of countries listed on the table. For instance, all of the African countries listed represent such transactions and all of the Latin American save those with Ecuador and Argentina.

Turning to the general status of the U.S. gold stock, I submit the following figures.

The stock of gold held by the United States at the close of business December 31, 1967, stood at $12,065 million and on June 30, 1968, at $10,681 million, a decline of $1,384 million. The accounting for this decline is presented on the opposite page in table I.

I might note that during the period of this report the enactment of Public Law 90–269 signed by the President on March 18, 1968, removing the requirement that 25 percent in gold be held as a reserve behind Federal Reserve notes and the gold reserve against U.S. notes and Treasury notes issued under the Act of July 14, 1890, freed approximately $10,530 million in gold to fulfill its primary role in the international monetary system and assured the world that our full gold stock stands behind our commitment to maintain the price of gold at $35 per ounce.

Sincerely yours,

JOSEPH W. BARR,
Acting Secretary.

TABLE I.—*U.S. net monetary gold transactions with foreign countries and international institutions, Jan. 1–June 30, 1968*

[In millions of dollars at $35 per fine troy ounce. Negative figures represent net sales by the United States; positive figures, net purchases]

Area and country	First quarter	Second quarter	Total
Western Europe:			
Belgium	−25.0	−32.5	−57.6
France		+220.0	+220.0
Greece		−.6	−.6
Ireland	−12.4	−32.0	−44.4
Italy	−184.0	−25.0	−209.0
Netherlands	−48.5	+30.0	−18.5
Switzerland	−25.0	−25.0	−50.0
Turkey		−7.5	−7.5
United Kingdom	−899.6	+50.0	−849.6
Yugoslavia	−.9	−.9	−1.8
Total	−1,195.5	+176.4	−1,019.0
Canada	+50.0		+50.0
Latin America:			
Argentina		−5.0	−5.0
Bolivia	−.1		−.1
Brazil		−.4	−.4
Chile	−1.1	−.8	−1.9
Costa Rica	−.1	−.2	−.3
Dominican Republic	−.1	−.1	−.3
Ecuador	−20.0		−20.0
El Salvador	(1)	−.1	−.1
Guatemala	−.1	−.1	−.2
Haiti	−.1	−.1	−.1
Honduras	(1)		(1)
Nicaragua		−.1	−.1
Panama		(1)	(1)
Trinidad and Tobago		−4.8	−4.8
Total	−21.7 +	−11.6	−33.2
Asia:			
Afghanistan	−2.3	−.1	−2.5
Burma		(1)	(1)
Ceylon	−.1	−.2	−.3
Cyprus		−13.4	−13.4
Indonesia	−.3	−.3	−.6
Iraq	−14.1	−28.1	−42.2
Jordan	−6.0	−7.5	−13.5
Korea	−6.5		−6.5
Lebanon	−73.5	−21.0	−94.5
Malaysia	−8.7	−23.5	−32.3
Nepal		−6.0	−6.0
Pakistan	+.2	(1)	+.2
Philippines	−.1	−.2	−.3
Saudi Arabia		−25.0	−25.0
Singapore	−30.0	−23.0	−53.0
Syria	−.1	−8.9	−9.1
Total	−141.6	−157.3	−298.9
New Zealand		−1.8	−1.8
Africa:			
Burundi	(1)	(1)	(1)
Ghana		−.4	−.4
Liberia	−.1	−.1	−.2
Morocco		−.2	−.2
Nigeria		−9.3	−9.3
Rwanda	(1)	(1)	−.1
Somalia	−.1	−.1	−.2
Sudan	−.2	−.3	−.5
Tunisia	−.2	−.2	−.3
Total	−.6	−10.5	−11.1
IMF		−17.0	−17.0
Total	−1,309.3	−21.7	−1,331.0
Domestic transactions	−52.5	−.2	−52.7
Total gold outflow	−1,361.8	−21.9	−1,383.7

[1] Under $50,000.

TABLE II.—*U.S. monetary gold transactions with foreign countries mitigated through special deposits by the IMF*

[In millions of dollars]

Country	1965	1966	1967	1968		
				Jan.–Mar.	Apr.–June	Total
Algeria		−0.8	−0.8		−0.8	−0.8
Argentina		−17.5				
Australia	−8.3					
Austria		−25.0				
Burma					−2.0	−2.0
Cameroon		−.2	−.2		−.2	−.2
Central African Republic		−.1	−.1		−.1	−.1
Ceylon		−4.0				
Chad		−.1	−.1		−.1	−.1
Chile				−6.3		−6.3
Congo (Brazzaville)		−.1	−.1		−.1	−.1
Congo (Kinshasa)		−.6	−2.4			
Costa Rica		−1.3				
Dahomey		−.1	−.1		−.1	−.1
Denmark		−8.3				
Dominican Republic		−.4	−.4	−.4		−.4
Ecuador		−1.3				
Ethiopia		−1.0				
Gabon		−.1	−.1		−.1	−.1
Greece		−10.0				
Guinea		−1.0				
Haiti		−.2				
Honduras		−1.0				
Iran			−13.7			
Iraq		−4.0				
Ivory Coast		−.2	−.2	−.2		−.2
Jamaica		−1.5				
Japan		−56.3				
Jordan				−.2	−.4	−.6
Korea		−1.3				
Lebanon			−.6			
Liberia		−1.0				
Malagasy		−1.0				
Malaysia				−1.3		−1.3
Mali		−1.0				
Mauritania		−.1	−.1		−.1	−.1
Morocco		−.9	−.9		−.9	−.9
Nicaragua		−1.0				
Niger		−.1	−.1			
Paraguay	−.9					
Philippines		−8.8				
Rwanda		−.2	−.2		−.6	−.6
Somalia		−.9				
Sudan		−3.0				
Sweden		−18.7				
Syria		−2.0				
Tunisia		−1.8				
Upper Volta		−.1	−.1		−.1	−.1
Venezuela	−25.0					
Vietnam		−.3	−1.3			
Total	−34.3	−177.2	−21.6	−8.2	−5.7	−13.9
IMF deposit	+34.3	+177.2	+21.6	+8.2	−11.3	−3.1
Total to date: 230.0						

Exhibit 50.—Second semiannual report on U.S. purchases and sales of gold and the state of the U.S. gold stock, covering the period July 1–December 31, 1968 (Released April 3, 1969)

U.S. transactions in gold in the second half of 1968 were in marked contrast to those in the first half. During the first 6 months of 1968 there was a loss of $1,384 million in the U.S. gold stock. In the second half of the year there was a gain of $210 million.

This gain in the 6-month period brought the total gold stock of the United States to $10,892 million on December 31, 1968.

The gold transactions for both the past 6 months and the first 6 months of 1968 are shown by country and quarters on the attached table I.

In the first quarter of 1968 there were no significant sales of gold to the United States and sales by the United States amounted to $1,362 million, of which $900 million was its share of participation in the gold pool operations. In the second quarter, after cessation of gold pool operations in March, the gross sales of gold by the United States still amounted to $322 million. These sales were largely offset, however, by purchases, primarily from France, which totaled $300 million.

The picture for the second half of 1968 showed a large reversal as the crisis atmosphere of March was dissipated. Gross sales fell to $176 million in the third quarter and to $31 million in the fourth quarter. On a net basis, gains were shown for each quarter as purchases continued to be made, primarily from France, for a total plus of $210 million. (From the low point at the end of May 1968, the U.S. gold stock rose by $424 million by yearend.)

The only sizable transactions with individual countries during the 6-month period were the purchase of $380 million from France and the sale of $50 million to Algeria.

As noted in the initial report by the Treasury on September 6, 1968, a very large number of gold transactions involved sales of gold to countries that were required to make gold payments to the International Monetary Fund as distinguished from those that wished to add gold to their reserves. All of the sales transactions listed in the attached table I of $2 million or less during the third and fourth quarters fell in this category. Similarly, the sale to Greece represented the repurchase by Greece of gold in anticipation of required gold repayments on a loan under the European Monetary Arrangement. The gold which Greece had obtained under the loan had been previously sold to the United States.

There was only one transaction during the period involving sales of gold for IMF purposes for which there are corresponding gold deposits by the IMF with the United States. This transaction is shown on table II.

TABLE I.—*U.S. net monetary gold transactions with foreign countries and international institutions, Jan. 1–Dec. 31, 1968*

[In millions of dollars at $35 per fine troy ounce. Negative figures represent net sales by the United States; positive figures, net purchases]

Area and country	1968				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
Western Europe:					
Belgium	−25.0	−32.5			−57.6
France		+220.0	+240.0	+140.0	+600.0
Greece		−.6		−10.6	−11.2
Iceland				(1)	(1)
Ireland	−12.4	−32.0	−11.0	+3.0	−52.4
Italy	−184.0	−25.0			−209.0
Malta			−9.7	−5.0	−14.7
Netherlands	−48.5	+30.0			−18.5
Norway				−.9	−.9
Portugal			−5.0		−5.0
Switzerland	−25.0	−25.0			−50.0
Turkey		−7.5		+10.0	+2.5
United Kingdom	−899.6	+50.0		+15.0	−834.6
Yugoslavia	−.9	−.9	−1.0	−1.0	−3.8
Total	−1,195.5	+176.4	+213.4	+150.5	−655.2
Canada	+50.0				+50.0
Latin America:					
Argentina		−5.0	−15.0	−5.0	−25.0
Bolivia	−.1		(1)	(1)	−.1
Brazil		−.4			−.4
Chile	−1.1	−.8	−.9	−2.0	−4.9
Costa Rica	−.1	−.2	−.1	−.1	−.6
Dominican Republic	−.1	−.1	−.1	−.1	−.6
Ecuador	−20.0				−20.0
El Salvador	(1)	−.1	−.1	−.1	−.3
Guatemala	−.1	−.1	−1.3	−.1	−1.6
Haiti	−.1	−.1	−.1	−.1	−.3
Honduras	(1)				(1)
Nicaragua		−.1	(1)	(1)	−.1
Panama		(1)		(1)	(1)
Trinidad and Tobago		−4.8			−4.8
Total	−21.7	−11.6	−17.8	−7.6	−58.6
Asia:					
Afghanistan	−2.3	−.1	−.1	−.1	−2.7
Burma		(1)	−2.5	(1)	−2.6
Ceylon	−.1	−.2	−.2	−.3	−.7
Cyprus		−13.4			−13.4
Indonesia	−.3	−.3	−.3	−.4	−1.3
Iran				−.1	−.1
Iraq	−14.1	−28.1			−42.2
Jordan	−6.0	−7.5	−.1	−2.8	−16.4
Korea	−6.5			−.1	−6.6
Kuwait			−24.9		−24.9
Lebanon	−73.5	−21.0			−94.5
Malaysia	−8.7	−23.5			−32.3
Muscat and Oman				−1.2	−1.2
Nepal		−6.0			−6.0
Pakistan	+.2	(1)	(1)	−.3	(1)
Philippines	−.1	−.2	+9.8	−.2	+9.4
Saudi Arabia		−25.0	−25.0		−50.0
Singapore	−30.0	−23.0	−28.0		−81.0
Syria	−.1	−8.9	−.1	−.1	−9.3
Total	−141.6	−157.3	−71.5	−5.5	−375.9

Footnote at end of table.

TABLE I.—*U.S. net monetary gold transactions with foreign countries and international institutions, Jan. 1–Dec. 31, 1968*—Continued

[In millions of dollars at $35 per fine troy ounce. Negative figures represent net sales by the United States; positive figures, net purchases]

Area and country	1968 First quarter	Second quarter	Third quarter	Fourth quarter	Total
New Zealand		-1.8			-1.8
Africa:					
Algeria			-49.9		-49.9
Burundi	(1)	(1)	(1)	(1)	-.1
Ghana		-.4			-.4
Liberia	-.1	-.1	-.1	-.1	-.4
Mauritius			-.3		-.3
Morocco		-.2		-.1	-.3
Nigeria		-9.3			-9.3
Rwanda	(1)	(1)	(1)	(1)	-.1
Somalia	-.1	-.1	-.1	-.1	-.3
Sudan	-.2	-.3	-.3	-.3	-1.1
Tunisia	-.2	-.2	-.2	-.2	-.7
Total	-.6	-10.5	-50.8	-.9	-62.8
IMF		-17.0			-17.0
Total	-1,309.3	-21.7	+73.3	+136.5	-1,121.2
Domestic transactions	-52.5	-.2	+.2	+.3	-52.3
Total gold outflow	-1,361.8	-21.9	+73.5	+136.8	-1,173.5

[1] Under $50,000.

TABLE II.—*U.S. monetary gold transactions with foreign countries mitigated through special deposits by the IMF, Jan. 1–Dec. 31, 1968*

[In millions of dollars]

Area and country	First quarter	Second quarter	Third quarter	Fourth quarter	Total
Latin America:					
Chile	-6.3				-6.3
Dominican Republic	-.4				-.4
Total	-6.6				-6.6
Asia:					
Burma		-2.0			-2.0
Jordan	-.2	-.4			-.6
Malaysia	-1.3				-1.3
Total	-1.4	-2.4			-3.8
Africa:					
Algeria		-.8			-.8
Cameroon		-.2			-.2
Central African Republic		-.1			-.1
Chad		-.1			-.1
Congo (Brazzaville)		-.1			-.1
Dahomey		-.1			-.1
Gabon		-.1			-.1
Ivory Coast	-.2				-.2
Mauritania		-.1			-.1
Morocco		-.9			-.9
Niger			-0.1		-.1
Rwanda		-.6			-.6
Upper Volta		-.1			-.1
Total	-.2	-3.3	-.1		-3.6
Total	-8.2	-5.7	-.1		-14.0
IMF deposit	+8.2	[1] -11.3	+.1		-3.0

[1] Reflects IMF deposit of $5.7 million and withdrawal of $17.0 million.

Exhibit 51.—Press release, July 15, 1968, announcing the completion of U.S. action on the Special Drawing Rights facility

The United States today became the first of the major industrial nations to complete governmental action approving the creation of Special Drawing Rights in the International Monetary Fund and providing for participation in the Special Drawing Rights (SDR) plan.

Treasury Secretary Henry H. Fowler, acting as the United States Governor of the IMF, notified the International Monetary Fund that the U.S. Government accepts the proposed amendment to the IMF Articles of Agreement establishing the SDR facility, and has completed all action necessary for U.S. participation in the SDR plan.

The official certification, which Mr. Fowler signed and sent to the IMF today, states that "The Government of the United States of America accepts the proposed amendment to the Articles of Agreement of the International Monetary Fund approved by the Board of Governors on May 31, 1968, and Resolution #23-5, and undertakes all of the obligations of a participant in the Special Drawing Account in accordance with United States law and has taken all steps necessary to enable the United States to carry out these obligations."

Legislation ratifying the necessary amendment to the IMF Articles of Agreement and authorizing U.S. participation in the SDR plan was approved by Congress on June 6, and signed into law by President Johnson on June 19.

The SDR's will be a new form of international reserve asset, and are designed to meet the need for increased reserves as world trade expands. The decision to create SDR's, and the amounts to be created, will be determined by the member nations of the IMF.

The SDR facility will be established in the IMF when 65 member nations which have 80 percent of the weighted votes in the Fund accept the plan. The United States has abont 22 percent of the votes.

Exhibit 52.—Press release, December 20, 1968, announcing the Netherlands prepayment of Marshall Plan loans to ease U.S. balance of payments situation

The Government of the Netherlands today paid in full the $65.5 million remaining balance on U.S. loans extended to it under the Marshall Plan. The prepayment covered amounts due between 1976 and 1983 according to the original amortization schedule.

The prepayment was made by the Netherlands as an appropriate form of cooperation in the light of the overall U.S. balance of payments situation.

Arrangements for the prepayment were agreed within the framework of discussions which the United States has conducted with its allies in Europe concerning cooperation to alleviate the effects on the U.S. balance of payments from defense expenditures for the common security.

The original 1948 loan was for $129.5 million. An earlier prepayment of $49 million was made on July 17, 1963, together with final payment of $21 million outstanding on a 1945 Export-Import Bank Loan. Other payments on the Marshall Plan loan were made on the original schedule.

Exhibit 53.—Press release, December 31, 1968, announcing repayment of all U.S. drawings to the International Monetary Fund

The Treasury announced today that all of the U.S. drawings on the International Monetary Fund (IMF) have been repaid.

The repayment fully restores the U.S. gold tranche position of $1,290 million. Gold tranche means that portion of a country's IMF subscription that is made in gold. It represents the amount a country may draw virtually automatically.

Of $1,840 million in total drawings since 1964 by the United States, $1,090 million were considered as technical drawings since drawn currencies were sold by the United States to other Fund members for their use in making repayments.

Most of the U.S. repayments, $1,555 million, resulted when other countries drew dollars from the Fund, including $600 million by the United Kingdom, France, and Canada this year.

The full restoration of the U.S. reserve position in the Fund was accomplished by direct U.S. payment of approximately $285 million in currencies of Belgium, Italy, and the Netherlands during November and December.

Exhibit 54.—Press release, January 17, 1969, announcing a Treasury recommendation that the interest equalization tax be extended

Treasury Secretary Joseph W. Barr announced today that the Treasury is sending to the Congress a bill to extend the interest equalization tax for another 2 years, to July 31, 1971.

The proposed new legislation would continue in force an essential part of the U.S. balance of payments program. The present authority expires July 31, 1969.

The interest equalization tax reduces the outflow of dollars by increasing the cost of foreign borrowing in the United States. Under discretionary authority granted by the Congress in 1967, the President can vary the effective rate of the tax from 1½ percent down to zero as the balance of payments position permits.

The Treasury action conforms with the recommendation of the Report of the Cabinet Committee on the Balance of Payments recently approved by the President. The report stated: "In 1969 this legislation will need to be extended. In order that we have available a method for phasing out this tax, the existing authority to vary the rate of the tax from zero to 1½ percent per annum should be retained."

In relating these temporary restrictive measures to the overall balance of payments program, the Report further stated:

"There is reasonable prospect of continuing improvement (in the balance of payments) next year. This assumes that there is no dismantling of the ongoing elements of (the balance of payments) Action Program. It also assumes that the initiatives launched in that program to improve our trade surplus and reduce the net deficits in military expenditures abroad and private travel will be vigorously pursued. Until these elements of the program are effectively executed, we will not have the durable surplus or the assurance of a long-term equilibrium that will enable us to abandon some of the temporary and less desirable measures we have been forced to employ.

"These temporary measures have served us well. They helped bring the necessary immediate improvement in our balance of payments and have given renewed confidence in the strength of the U.S. dollar. These temporary measures, appropriately modified, are needed for some additional period. As the longer term measures, instituted last year and in some of the preceding years, yield increasingly larger benefits, the restraint achieved by the temporary measures may be phased out.

"To complete our task, a continued and sustained effort will be needed. This is the quickest and surest route to the strong and viable payments position which will permit us to eliminate those aspects of our program that are not wholly compatible with the free flow of trade and capital movement."

The Treasury is continuing to examine the need for technical amendments designed to improve the effectiveness of the interest equalization tax.

Exhibit 55.—Press release, June 2, 1969, joint U.S.-German statement following meeting between Treasury Secretary David Kennedy and Minister of Economics Karl Schiller.

Secretary of the Treasury David Kennedy and the Minister of Economics of the Federal Republic of Germany, Mr. Karl Schiller, concluded their talk at Camp David today.

Minister Schiller and Secretary Kennedy discussed economic and financial developments in their two countries and the progress each nation is making toward its principal economic objectives. Secretary Kennedy stressed in particular the determination of the U.S. Government to curb inflation and return the economy to a more sustainable rate of growth.

They also exchanged views on various aspects of the international monetary system. In particular, they agreed that the establishment of the Special Draw-

ing Rights Facility in the International Monetary Fund will be one important step in the orderly evolution of that system.

Minister Schiller and Secretary Kennedy also agreed on the importance of continued close cooperation on international economic and monetary matters.

The Minister's visit was originally scheduled to take place May 16–17 but was postponed at his request. The visit was his first opportunity to meet with Secretary Kennedy and other members of the new Administration.

Exhibit 56.—Press release, June 9, 1969, transmitting Treasury's proposed interest equalization tax bill of 1969

Treasury Secretary David M. Kennedy today is sending to the Congress a bill to extend the interest equalization tax for 18 months, to January 31, 1971. The present legislation expires July 31, 1969.

The proposed new legislation would continue in force this essential part of the U.S. balance-of-payments program.

The interest equalization tax applies to acquisitions by U.S. residents or citizens of foreign stocks and debt obligations from foreigners, and reduces the outflow of dollars from the United States by increasing the annual cost to foreigners of raising capital in the U.S. market.

Under discretionary authority granted by Congress in 1967, the President can vary the effective annual rate of the tax from zero to 1½ percent as the balance-of-payments position permits. The present effective rate of ¾ percent was established in an Executive order signed by the President on April 3, 1969.

The proposed legislation includes several technical amendments, and makes the existing authority of the President to vary the rate of tax within the limits set by Congress more flexible by authorizing the President to adjust the tax rate on new issues downward without an equivalent reduction of the rate applicable to outstanding securities. This amendment could be used to reduce reliance upon the interest equalization tax, in line with the President's announcement of April 4, 1969, that:

"We shall stop treating symptoms and start treating causes, and we shall find our solutions in the framework of freer trade and payments."

A Treasury explanation of the bill is attached.

PROPOSED INTEREST EQUALIZATION TAX EXTENSION BILL OF 1969

Explanation

The proposed "Interest Equalization Tax Extension Act of 1969," which amends the Internal Revenue Code of 1954, extends the tax for 18 months so that it would expire January 31, 1971. Furthermore, by supplementing existing Presidential authority to vary the rates of tax within the range already prescribed by Congress with authority to set lower rates for original or new issues, the bill could be used to reduce our reliance upon the tax in line with the President's announcement of April 4, 1969, that:

"We shall stop treating symptoms and start treating causes, and we shall find our solutions in the framework of freer trade and payments."

In addition, the bill makes several technical, clarifying, and conforming changes to facilitate administration of the tax or eliminate unintended hardship. A description of the provisions of the proposed bill follows:

(1) *Extension of tax.*—Section 2 of the bill amends section 4911(d) to extend the termination date of the tax by 18 months, to January 31, 1971.

(2) *Lower rates on original or new issues.*—Section 3 of the bill amends section 4911(b)(2)(A) to grant the President authority to make the rate applicable to stock or debt obligations which are part of an original or new issue (or a specific classification of original or new issues) lower than the rates applicable to outstanding stock or debt obligations. Under existing law the President may vary the effective annual rate between zero and 1½ percent, but the rate must be the same for new and outstanding issues.

By refining existing authority so as to permit a lower rate to be applied to original or new issues, the bill could be used to reduce our reliance upon the interest equalization tax without the adverse effect on our balance-of-payments which might result if such lower rate were also applicable to outstanding issues.

including issues sold to foreigners by domestic corporations for the purpose of financing foreign affiliates. For the purposes of the interest equalization tax, such issues are treated as debt obligations of foreign obligors.

The bill provides that the term "original or new issue" shall have the same meaning as in section 4917 which contains the exclusion for international monetary stability, and that the President may in the Executive order limit the amount and classification of such original or new issues to which the lower rates are applicable. It is intended that the President have authority under this section to limit an Executive order at least to the extent he can (or is required to) limit an Executive order under section 4917. An Executive order could also require a "notice of acquisition," or provide other implementing procedures. Also, under this authority the President could deny "original or new issue" treatment where the proceeds are to be used for the purpose of avoiding a higher rate applicable to outstanding issues or otherwise avoiding the limitations applicable to any preferential rate for new issues.

(3) *Certain transfers to foreign trusts.*—Subsection (a) of section 4 of the bill amends paragraph (1) of section 4912(b) by redesignating the present text as subparagraph (A) and adding new subparagraph (B).

Paragraph (1) of section 4912(b) (redesignated subparagraph (A)) presently provides that any transfer (other than in a sale or exchange for full and adequate consideration) of money or other property to a foreign trust is deemed an acquisition by the transferor of stock of a foreign issuer, but only to the extent that such trust acquires stock or debt obligations (of one or more foreign issuers or obligors) which would, if acquired directly by the transferor, be subject to the interest equalization tax.

The new subparagraph (B) of paragraph (1) provides a rebuttable presumption that, subsequent to such transfer, the foreign trust acquired stock or debt obligations which would, if acquired directly by the transferor, be subject to the interest equalization tax. The presumption may be rebutted if the transferor submits proof satisfactory to the Secretary or his delegate that, during the calendar quarter in which the transfer took place and each succeeding calendar quarter, liability for the interest equalization tax has either not been incurred or has been paid. Such proof must be submitted on or before the 30th day following the close of each such quarter.

The amendatory provisions are designed to give the Internal Revenue Service a more effective means of determining whether a transferor has incurred interest equalization tax liability.

(4) *Certain domestic financing companies.*—Subsection (b) of section 4 of the bill amends paragraph (3B) of section 4920(a) which provides that a domestic corporation engaged in the business of financing the sales of products manufactured by affiliated companies in the United States or abroad may elect to be treated as a foreign issuer or obligor.

Section 4920(a)(3B) was enacted in 1967 to permit such sales financing activities free of tax if the prescribed conditions were satisfied. Such conditions have been found to be too restrictive and it has been determined that some of the conditions can be removed without substantial balance of payments risk. The bill replaces existing section 4920(a)(3B) with a new provision in section 4920(d) (existing section 4920(d) is redesignated as section 4920(e)) to permit the everyday operations of "captive" sales financing companies without undue operating burdens, while at the same time retaining the foreign borrowing and certain other requirements to protect our balance-of-payments position.

New section 4920(d) provides that in order for a domestic corporation to qualify as a "foreign issuer or obligor" it must be exclusively engaged in the trade or business of acquiring and servicing debt obligations arising out of sales of tangible personal property or otherwise described in section 4920(d)(1). Also, at least 90 percent of the face value of the debt obligations (with two exceptions) owned by such corporation at all times during the taxable year must consist of debt obligations described in paragraph (1) of section 4920(d).

The permissible types of debt obligations are those arising in connection with sales of products produced, manufactured, assembled, or extracted by affiliated companies in the United States or abroad, trade-ins; trade-ins on trade-ins, exports from the United States not less than 85 percent of the purchase price of which is attributable to property manufactured, produced, grown, or extracted in the United States, or services performed by United States persons, and loans to certain dealers or distributors. A 10 percent "cushion" is provided permitting

the ownership of debt obligations arising out of other sales of tangible personal property. In applying the 90–10 rule, bank deposits with a maturity of less than one year and debt obligations of affiliated corporations which were received as payment for stock or as a contribution to capital are not taken into account. Acquisitions of foreign or domestic stocks are not allowed except those of affiliated corporations received as a payment for stock or as a contribution to capital.

All debt obligations must be acquired out of the proceeds of certain foreign borrowings, equity capital attributable to foreign borrowings by affiliates, retained earnings and reserves. This limitation is designed to assure that there will be no adverse effect on our balance-of-payments position as a result of such financing activities.

In addition to the above requirements, the corporation must maintain prescribed records and elect to be treated as a foreign issuer or obligor. If the corporation fails to meet any of the statutory conditions all debt obligations held by it at the time of revocation, which except for the election would be taxable, are subject to tax.

Paragraph 3 of section 4(b) of the bill makes minor conforming amendments to section 4915(c)(3) under which foreign subsidiaries, 50 percent or more owned by affiliated corporations, will not be considered formed or availed of for the principal purpose of tax avoidance if they satisfy the conditions imposed on domestic sales financing companies under section 4920(d) and give timely notice to the Secretary or his delegate.

(5) *Reporting requirements of nonparticipating firms.*—Subsection (c) of section 4 of the bill amends paragraph (3) of section 6011(d) to conform its provisions with the provisions of section 4918 which were revised at the time of the enactment of the Interest Equalization Tax Extension Act of 1967. In its present form, this paragraph, which was not amended in 1967, refers to procedures made obsolete by the 1967 Extension Act.

In order to correct this legislative oversight, paragraph (3) of section 6011(d) is amended to provide that suitable reporting and recordkeeping may be required of a member or member organization of a national securities exchange or association registered with the Securities and Exchange Commission which is not a participating firm referred to in section 4918(c). Such reporting and recordkeeping requirements are necessary to assure proper administration of the interest equalization tax.

The amendment requires that such member or member organization keep such records and file such information as the Secretary or his delegate may by forms or regulations prescribe in connection with certain acquisitions and sales effected by such member or member organization, whether for his own account or as a broker. These recordkeeping and information reporting requirements could be made applicable to acquisitions and sales with respect to which: (1) validation certificates issued by the Internal Revenue Service (described in section 4918(b)(1)(A)) are received from the Service or any other source, or (2) an acquiring United States person is subject to the interest equalization tax. The latter includes acquisitions and sales with respect to which a written confirmation is furnished to a United States person (or should have been furnished) indicating that the particular acquisition is or may be subject to the interest equalization tax.

As amended, section 6011(d)(3) would not be applicable to a member or member organization if it is a participating firm within the meaning of section 4918(c). Section 4918(c) already provides that participating firms must comply with the documentation, recordkeeping, reporting and auditing requirements prescribed by the Secretary or his delegate.

The effect of the amendment is to remove any doubt as to the obligation of nonparticipating firms to file the Broker's Quarterly Information Return (Form 3845) and to maintain the records necessary to enable the firms to do this and to maintain records or file returns which might subsequently be prescribed. Participating firms are also required to file Form 3845.

(6) *Failure of nonparticipating firms to file information returns.*—In order to implement the above amendment relating to reporting requirements for nonparticipating firms, subsection (d) of section 4 of the bill amends section 6680 by redesignating the existing provisions as subsection (a) and by adding a new subsection (b) which imposes a penalty upon a member or member organization of a national securities exchange or association registered with the Securities and Exchange Commission who fails to file any information return prescribed by the

Secretary or his delegate pursuant to the amended provisions of section 6011(d)(3), unless the failure to file is due to reasonable cause. The amount of the penalty is $1,000 for each failure to file the required return. Since the present quarterly information return (form 3845) is an important tool in interest equalization tax enforcement efforts, it is necessary that a penalty be imposed for noncompliance by nonparticipating firms. Participating firms are already subject to other sanctions.

Exhibit 57.—Other Treasury testimony published in hearings before congressional committees, July 1, 1968–June 30, 1969

Secretary Kennedy

Statement published in hearing before the Committee on Foreign Relations, U.S. Senate, 91st Congress, first session, on H.R. 33, a bill to provide for increased participation by the United States in the International Development Association, April 16, 1969, pages 2–6.

Assistant Secretary Petty

Statement published in hearings before the Subcommittee on Deficiencies and Supplementals of the Committee on Appropriations, U.S. Senate, 91st Congress, first session, on the appropriation of the first installment of the U.S. contribution to the second replenishment of the resources of the International Development Association, May 15, 1969, pages 1287–1299.

Statement published in hearings before the Subcommittee on Foreign Operations and Related Agencies of the Committee on Appropriations, House of Representatives, 91st Congress, first session, on the appropriation of the second installment of the U.S. contribution to the second replenishment of the resources of the International Development Association, May 26, 1969, pages 379–383.

Gold and Silver Operations

Exhibit 58.—Letter to the President from Secretary Fowler, December 20, 1968, concerning the Joint Commission on the Coinage

The President,
The White House.

Dear Mr. President: The Coinage Act of 1965 authorized the President to establish a Joint Commission on the Coinage. The Act specified that the Commission be composed of 24 members—six from the Senate, six from the House of Representatives, four from the Executive Branch (Secretary of Treasury, Secretary of Commerce, Director of the Bureau of the Budget, and Director of the Mint) and eight public members to be named by the President. The Secretary of the Treasury was designated as Chairman. It was the intent of the Congress that the Commission have a fundamental role in the formulation and implementation of all silver and coinage policy decisions necessary to complete the transition from silver to nonsilver coins. The Commission was formalized on May 1, 1967, with the appointment of its public members.

The Coinage Act assigned to the Joint Commission a wide range of responsibilities. Specifically, according to the Act, the Joint Commission on the Coinage "shall study the progress made in the implementation of the coinage program established by this Act, and shall review from time to time such matters as the needs of the economy for coins, the standards for the coinage, technological developments in metallurgy and coin selector devices, the availability of various metals, renewed minting of the silver dollar, the time, when, and circumstances under which the United States should cease to maintain the price of silver, and other considerations relevant to the maintenance of an adequate and stable coinage system. It shall, from time to time, give its advice and recommendations with respect to these matters to the President, the Secretary of the Treasury, and the Congress."

The Joint Commission held its first meeting on May 18, 1967. In all it has met six times and has served in a continuous advisory capacity, participating in all key policy decisions.

Major Silver and Coinage Policy Decisions—May 1967–December 1968

At the time of the Commission's first meeting on May 18, 1967, the Treasury, under the authority of the Coinage Act of 1965, was holding the price of silver at $1.29 an ounce through unrestricted sales at that price of its "free" silver (silver not held for the redemption of silver certificates) to all purchasers, foreign and domestic. This kept the world price of silver at the $1.29 level forestalling the hoarding, melting and export of U.S. silver coins for the value of their silver content. The Treasury was also expediting production of the new cupronickle clad dimes and quarters to meet the country's need for coins.

At the meeting on May 18, 1967, the Commission considered and concurred in a recommendation by the Treasury that sales of silver be discontinued to purchasers other than domestic industrial users of silver. Regulations were then issued to require purchasers of Treasury silver to execute End-Use Certificates certifying that the silver would be used in domestic manufacturing operations. In addition, regulations were invoked under authority of the Coinage Act prohibiting the unauthorized melting, treating or export of silver coins of the United States.

The reason for the action of May 18, 1967, was that purchases and orders for silver under the unrestricted sales policy had begun to rise and by May 15 it had become apparent that the Treasury could not sustain this rate of sales without completely exhausting its stocks of free silver within a relatively short period of time. The heavy purchases during May had been made principally by brokers, mostly for export.

In connection with the termination on May 18, 1967, of unrestricted Treasury sales of silver, a group of bullion dealers presented claims for orders which were pending on that date but were not accepted. The Commission reviewed these claims and recommended that legislation be introduced in Congress under which they would be referred to the Court of Claims for a determination of their legal and equitable merits and the amounts, if any, due in compensation. Representative Patman introduced legislation for this purpose in the 90th Congress (H. Res. 1307 and H.R. 19871).

In May and June 1967, sales of Treasury silver to industrial users continued at rates well in excess of those which would be expected from normal industrial silver usage. By mid-1967, however, the Mint had produced over 8½ billion clad coins, and the volume of clad coinage in circulation and in the inventories of the Mint and Federal Reserve Banks was finally deemed sufficient to meet the country's trading needs even if virtually all the silver coins were withdrawn from circulation by private holders. There was, therefore, no longer any justification for selling surplus supplies of Treasury silver to private users at prices substantially below the prevailing market level.

Before the final decision to halt silver sales at the fixed price was made, the entire issue was reviewed with the Coinage Commission at a meeting on July 14, 1967. At this meeting the Commission was thoroughly briefed on the Treasury supply of silver and was given estimates of the Treasury capacity to meet probable demands on its silver supply over the coming years. Specifically, the Commission was advised that in the judgment of the Treasury, the available supply of silver was adequate to (1) redeem all silver certificates likely to be offered until these redemption rights ended on June 24, 1968, (2) mint all Kennedy half dollars for which funds had been appropriated by the Congress, and (3) transfer 165 million ounces of silver to the defense stockpile on June 24, 1968, as required by law. It was the Treasury's view that after making allowance for all these obligations the Treasury would still have a very large surplus of silver by the end of June 1968.

Given this favorable surplus inventory situation the Commission was advised that the Treasury could maintain sales of silver to the private market over the coming year. Since there was no longer any justification for selling this surplus silver at a subsidy price, it was recommended that the sales be made at the going market price, preferably through a competitive bid procedure. The chief advantages of maintaining Treasury sales of silver were: (1) the profits from such sales would be a substantial increment to the Government's revenue, (2) the sales would have a favorable balance of payments effect through reducing the need for silver imports, and (3) silver no longer needed by the Treasury

could benefit the public through conversion by private industry to useful purposes, such as film, defense needs, etc.

Accordingly, the Commission approved a Resolution that the Treasury terminate its policy of selling from its stocks at $1.29 per ounce and, provided that if in the judgment of the Treasury it would have sufficient silver to meet its statutory obligations with regard to the stockpile and redemption of silver certificates, make future sales of silver periodically under a competitive bid procedure at a rate not exceeding 2 million ounces per week. The 2 million ounce weekly rate was set as the figure which approximately equaled the prevailing deficit between the industrial consumption of silver and domestic mining production. The Commission further recommended that such sales be conducted in a manner which would afford small purchasers as well as large purchasers an opportunity to bid, and that the Secretary of the Treasury continue to make reports to the Commission on the results of the sales and other facts relating to silver supplies. Beginning August 4, 1967, the General Services Administration as agent for the Treasury began offering silver for sale to domestic industrial users under the above conditions. These sales have continued to date.

At subsequent meetings of the Commission in September 1967 and in March and July of 1968, the Commission maintained a close review over the Treasury's silver supplies. At the meeting on March 1, 1968, the Commission concurred in a Treasury proposal to melt silver coins held in Government inventories and include coin-silver bullion among that offered at weekly GSA sales. At this meeting the Commission also approved an indefinite continuation of the coin melting ban.

At the meeting on July 15, 1968, the Commission gave consideration to the disposal of the 2.9 million rare silver dollars held by the Treasury. Upon advice of the Commission the Chairman appointed an interagency committee to work out a plan for the equitable disposition of the rare silver dollars for its consideration.

At its meeting on December 5, 1968, the Commission completed its recommendations on the remaining major silver and coinage issues. With regard to the 2.9 million rare silver dollars held by the Treasury the Commission recommended that they be sold by the GSA at minimum fixed prices with an option to the buyer to include an alternate bid price to be considered in the event the number of coins ordered exceeded the number of coins available. Under this plan everyone would have an equal opportunity to acquire these coins with an initial limit of one coin per buyer in each category.

On other issues considered at the December 5 meeting a substantial majority of the Commission recommended that the Treasury request legislation to replace the existing 40 percent silver half dollar with a non-silver clad coin. Although over 800 million of the 40 percent silver half dollars have been minted, very few are recirculated through the Federal Reserve Banks. A majority of the Commission concluded that there is an important commercial need for a circulating half dollar coin and that this need can best be met by the minting of a non-silver clad half dollar. A minority of the Commission favored the continued production of the silver half dollar.

A substantial majority of the Commission also recommended that the Congress enact legislation to make the current administrative ban on the melting of silver coins permanent and applicable to all U.S. coins. This recommendation was largely based on the view that any profits resulting from the sale of silver in U.S. coins should be realized by the public as a whole through their Government rather than to individual hoarders of these coins. A permanent coin melting ban would also help assure the adequate circulation of the non-silver coinage in the event of future market price situations in other metals similar to that which occurred with silver. A minority of the Commission, on the other hand, felt that the coin melting ban should be ended. In their view the ban was difficult to enforce and its end would make a substantial quantity of silver in hoarded coins available immediately for industrial use.

The present silver and coinage situation

On July 31, 1967, before silver sales were begun under the GSA competitive bid procedure, the Treasury had available 521 million ounces of silver of which 81 million consisted of silver in coin inventories. Over the next 16 months approx-

imately 186 million ounces of silver in coins was added to the Treasury's available silver supply by not recirculating coins as they were returned to the Federal Reserve banks. During the same 16-month period the Treasury's supply of silver was reduced through (1) GSA sales of 130 million ounces; (2) silver certificate redemptions requiring 88 million ounces; (3) coinage of the Kennedy half dollar using 48 million ounces; (4) 165 million ounces which was transferred to the defense stockpile; and (5) 29 million ounces lost through the need to recirculate some of the silver coins held in inventories of mixed silver and clad coins.

As a result of these additions and deductions the Treasury now has available (as of November 30, 1968) 246 million ounces of silver of which an estimated 170 million ounces consists of silver in coin inventories at the Mint and Federal Reserve Banks. The silver coins, which clearly will never be usable as circulating coinage, are being melted into bar silver at a rate sufficient to maintain the 2 million ounce weekly sales together with a reserve supply. If necessary this melting rate could be substantially increased.

All of the Treasury's current supply of silver both in bullion and in coins can be quickly made available for sale through the GSA with the exception of approximately 23 million ounces which requires further refining to extract some gold content, and about 14 million ounces of .400 fine clad material reserved for the currently authorized silver half dollar. With the Mint's present refining resources, the 23 million ounces mixed with gold can be refined into usable form at a rate of from 3 million to 6 million ounces a year depending on the resources used.

The amount of surplus silver the Government will have available for continued disposal in the market depends partly upon which congressional action is taken with regard to the future of the 40 percent silver half dollar. In the current fiscal year the Congress has appropriated sufficient funds to produce 100 million Kennedy half dollars. This amount requires about 15 million ounces of silver. If it is decided to continue minting the silver half dollar in future years, some portion of the Treasury's current silver holdings would presumably be set aside for this purpose even if the minting of the half dollar were in token amounts. If, as the Coinage Commission recommends, further minting of the silver half dollar is terminated then obviously the entire remaining supply would become surplus to Treasury needs. It should be noted that the Treasury stock of silver is in no sense intended as a monetary reserve, nor is it a stockpile for general Government purposes since this function is met by the regular defense stockpile of 165 million ounces now under control of the Office of Emergency Preparedness. Thus, silver supplies are ample to continue future sales into the market for 2 years or longer.

Since its first meeting on May 18, 1967, the Coinage Commission has been kept informed on current and planned production of coins, coin inventories, and the status of coins in circulation. Over the entire period from May 1967 through November of 1968, the volume of circulating coinage has been ample for all commercial needs and no significant coin shortages have been evident. This gratifying result has been primarily due to the timely transition from silver to clad coinage and the expeditious manner in which the program to expand the production of the new clad coins was carried out. Thus, at the critical moment when a substantial rise in the world's market price of silver became inevitable, the Treasury had built up a sufficient reserve supply of clad coins to fully meet commercial needs.

The smooth transition from circulating silver coins to primarily clad coins was further helped by the ban on the melting and export of silver coins put into effect in May of 1967. This action particularly contributed to keeping a substantial volume of silver coins in circulation throughout the period of heavy seasonal commercial need in the latter half of 1967. The maintenance of the coin melting ban through 1968 also has been extremely helpful in enabling the Treasury to accumulate its present substantial inventory of silver coins. Continued sales of the silver from these coins will enable both silver producers and users to make a smoother adjustment to the inevitable point at which they will be completely dependent upon private sources of silver supply.

The past few years have been the gradual phasing out of silver as a monetary and coinage metal throughout the free world. In the United States the transition has been carried out smoothly and without disrupting the commerce and

trade of the country, the objective which has been of major concern. In contrast to other countries which, because of the rise in the price of silver are still experiencing serious coinage problems, the United States now has a soundly functioning coinage system and a large surplus stock of silver as well. This gratifying situation is an excellent background for any action with respect to the future of the silver half dollar and the coin melting ban.

Faithfully yours,

HENRY H. FOWLER.

Exhibit 59.—Press release, April 25, 1969, concerning Treasury revision of gold coin import regulations

The Treasury Department announced today a revision of gold coin import regulations to permit imports of gold coins minted prior to 1934 without license.

Relaxation of the licensing requirement is effective today and was made to remove an inconsistency in regulations on imported pre-1934 gold coins, which generally had to have licenses, and those regularly traded within the United States.

Gold coins minted during or after 1934, however, may be imported only with a license from the Director, Office of Domestic Gold and Silver Operations, Treasury Department, Washington, D.C. Such licenses are issued only for rare and unusual coins of recognized special value to collectors. Importation of gold coins minted in 1960 or afterwards still will not be licensed.

Before this change in the regulations, all coins made prior to April 5, 1933, could be freely bought, sold, and held within the United States. However, only rare and unusual gold coins could be imported and then only pursuant to a specific license. Under this standard, certain coins minted before 1934 did not qualify for import even though they were freely traded in the domestic market. With the change in the regulations any gold coin may be imported which can now be legally traded within the United States.

The amendments will simplify existing restrictions on numismatists while continuing to serve the basic purpose of the Gold Regulations. The current licensing policy will be retained for coins minted after January 1, 1934.

Gold coins may still be detained at Customs stations for examination as to their authenticity. Counterfeit coins may not be imported and are subject to seizure. Restrikes, that is modern reproductions of gold coins bearing a much earlier date, will also not qualify for importation. Therefore, travelers and coin collectors should be especially careful that the coins they purchase abroad are genuine.

Exhibit 60.—Amendments to gold regulations, April 25, 1969

Title 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 54—GOLD REGULATIONS

Imports of Gold Coin

Section 54.20 of the Gold Regulations is being amended to permit the importation without a license of gold coins made before 1934. Licenses will be required to import any gold coins made during 1934 or later. Licenses for importation may be issued for coins minted before 1960 which can be established to the satisfaction of the Director, Office of Domestic Gold and Silver Operations, to be of recognized special value to collectors of rare and unusual coin and to have been originally issued to circulate as coinage within the country of issue. Licenses for importation may be issued for gold coins made during or subsequent to 1960 only in cases where the particular coin was licensed for importation prior to April 30, 1969. Because the amendments relieve an existing restriction and in the case of coins made after 1933 make no change in present Regulations and licensing policies, it is found that notice and public procedure thereon are unnecessary.

Section 54.20 is amended to read:

§ 54.20 **Rare coin.**

(a) Gold coin of recognized special value to collectors of rare and unusual coin may be acquired, held, and transported within the United States without the necessity of holding a license therefor. Such coin may be imported, however. only as permitted by this section or §§ 54.28 to 54.30, 54.34 or licenses issued thereunder, and may be exported only in accordance with the provisions of § 54.25.

(b) Gold coin made prior to 1934 is considered to be of recognized special value to collectors of rare and unusual coin.

(c) Gold coin made during or subsequent to 1934 is presumed not to be of recognized special value to collectors of rare and unusual coin.

(d) Gold coin made prior to 1934, may be imported without the necessity of obtaining a license therefor.

(e) Gold coin made during or subsequent to 1934 may be imported only pursuant to a specific or general license issued by the Director, Office of Domestic Gold and Silver Operations. Licenses under this paragraph may be issued only for gold coin made prior to 1960, which can be established to the satisfaction of the Director to be of recognized special value to collectors of rare and unusual coin and to have been originally issued for circulation within the country of issue. Licenses may be issued for gold coin made during or subsequent to 1960 in cases where the particular coin was licensed for importation prior to April 30, 1969. Application for a specific license under this paragraph shall be executed on Form TG–31 and filed in duplicate with the Director.

(Sec. 5(b), 40 Stat. 415, as amended, secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b, E.O. 6260, Aug. 28, 1933, as amended by E.O. 10896, 25 F.R. 12281, E.O. 10905, 26 F.R. 321, E.O. 11037, 27 F.R. 6967; 3 CFR, 1959–63 Comp. and E.O. 6359, Oct. 25, 1933, E.O. 9193, as amended, 7 F.R. 5205; 3 CFR 1943, Cum. Supp. E.O. 10289, 16 F.R. 9499, 3 CFR, 1949–53 Comp.)

Effective date: These amendments shall become effective on publication in the Federal Register.

Dated: April 22, 1969.

[SEAL]

Paul A. Volcker,
Under Secretary for Monetary Affairs.

Exhibit 61.—Press release, May 12, 1969, concerning Treasury sales of silver and transmitting Secretary Kennedy's statement before the Joint Coinage Commission

The Treasury Department announced today that it will reduce the amount of silver offered at its weekly auction from 2 million ounces to 1½ million ounces, and lift the ban on melting silver coins.

Silver sales will be open to all bidders.

The announcement followed a meeting of the Joint Commission on the Coinage, chaired by Secretary of the Treasury David Kennedy.

The Treasury will present and urge prompt enactment of legislation to authorize the minting of a nonsilver, half dollar—the minting of a nonsilver dollar coin—and, under a plan recommended by the Joint Commission, sale of the 2.9 million rare silver dollars still held by the Treasury. The recommendation was made by the Commission on December 5, 1968.

The Treasury will also reduce the weekly amount of silver offered for sale through the General Services Administration from the present 2 million ounces to 1½ million ounces, and maintain this level until the present surplus of about 150 million ounces is exhausted. A set-aside for small businesses will be continued.

The GSA weekly silver sale will be open to all competitive bidders without restriction on the use of the silver purchased and the existing administrative ban on the melting and export of silver coins will end.

Changes in the amount of GSA weekly sales and the bidding procedure will be effective as of the May 27 offering. Details of this change will be announced by the GSA shortly.

The end to the ban on the melting and export of silver coins will take effect immediately.

A copy of Secretary Kennedy's statement to the Commission is attached.

OPENING STATEMENT OF THE SECRETARY BEFORE THE MEETING OF JOINT COINAGE COMMISSION, MAY 12, 1969

This is the first meeting of the Joint Commission on the Coinage under the new Administration and I want to express my appreciation and that of President Nixon for your taking the time from busy schedules to give us the benefit of your thinking on some hard decisions that must be made on our remaining silver and coinage issues.

Under authority of the Coinage Act of 1965, this bipartisan Commission has the responsibility of giving advice on silver and coinage problems to the President, the Secretary of the Treasury, and the Congress. When it was first activated I think few envisaged the key role the Coinage Commission would play in the actual policy decision making process. In addition to making available to the Treasury a broad range of expertise on complex monetary problems, the Commission meetings have served as a useful forum for a frank exchange of views between the Administration and key members of Congress which has clearly been in the best public interest. At this time we again seek your advice.

For a number of weeks a Task Force within the Treasury headed by General Counsel Paul Eggers and including Assistant Secretary Rossides, Deputy Under Secretary MacLaury, and other officials has been taking a hard look at the entire range of silver and coinage policy issues. The basic objective of this broad review was not simply to reach judgments on each of these issues in isolation but rather to develop a balanced overall program, fair to the public as consumers and taxpayers as well as to silver producers and industrial users. The Treasury group has completed its work and a copy of their report has been sent to each of you.

I have carefully reviewed the report of the Treasury Task Force on Silver and Coinage Policy and strongly endorse the recommendations therein as being fully in the public interest. The proposed legislative and administrative actions will be discussed in the course of our meeting, but let me briefly review the highlights and give you some of the reasons why I consider this to be a sound program.

The first recommendation, for the minting of a nonsilver clad half dollar, is consistent with the conclusions reached by the Commission at its meeting last December. I think the convincing argument here is that despite the minting of some 760 million 40 percent silver half dollars over the past 3 years, very few of these coins are actually circulating. Even if we were to continue pouring all of our remaining 150 million ounces of surplus silver into the silver half dollar, it is extremely doubtful whether the coin would circulate in any quantity. Moreover, this use of our remaining silver would require a halting of surplus silver sales which would very probably drive the price up excessively and further stimulate the hoarding of these coins. In short, the 40 percent half dollar on our past experience is simply a losing proposition.

If we are authorized to mint a nonsilver half dollar, I am confident that within a reasonable period of time this coin will circulate in adequate quantity for all commercial needs.

The second major recommendation in the Treasury Report, and one to which we gave a great deal of careful attention, is that the current administrative ban on the melting and export of silver coins be discontinued. I am aware that at your meeting last December the Coinage Commission reached a different conclusion, but I think the basic situation has substantially changed and a review of this issue is in order. In contrast to the situation in the past, the melting ban no longer either keeps silver coins in circulation or contributes to the Treasury's supply of silver coins. Since July 1968 we have added very few coins to our inventory. And I rather doubt that determination by the Congress affirming the ban would cause any appreciable amount of these coins to circulate. In short, I think there is no longer a really constructive reason for maintaining the ban on the melting of coins which was first established in 1967 for purposes which no longer apply.

The Treasury Report next covers sales of surplus silver through the GSA and recommends that the weekly amount offered be reduced from 2 million ounces to 1½ million ounces. At the same time the Report urges that it be made clear, as nearly as possible, how long these silver sales will be maintained. The purpose of the latter point is to reduce the element of uncertainty which has disrupted the market in the past. If, as recommended, the minting of a nonsilver half dollar is authorized then all of the Treasury's current supply of silver becomes surplus to its needs. As you know, a separate 165 million ounce strategic stock-

pile of silver has already been established by law. In the judgment of the Office of Emergency Preparedness this stockpile is fully adequate for emergency needs.

I would point out that the GSA sale of silver not only adds to the Treasury's revenue but makes a solid contribution to our balance of payments by reducing the need for commercial silver imports. In my judgment these sales should be continued. However, we must recognize that at some point the Government will cease to be a silver supplier. It is clearly in the public interest that the market adjustment to this fact be as smooth as possible. I think a reduction in the weekly amount of silver offered and the maintenance of sales at that level will tend to ease this adjustment. If we set a firm sales figure and indicate the pool of surplus silver to be made available, both silver producers and consumers will be on notice as to when, within reasonable limits, the Treasury supply will end and can base their planning on this awareness.

The Treasury Report also recommends that the GSA silver sales be open to all bidders with no restrictions on the silver purchased. When these sales were begun in August 1967 the Treasury, mainly because of the prevailing refinery strike, required that the silver purchased be used in domestic industry. However, it was also announced at that time that this restriction would be removed as soon as feasible. I think this change should be made now.

The final two recommendations of the Treasury Report are in accord with the decisions reached by this Commission at its December meeting. The first is that the Congress authorize the minting of a nonsilver dollar coin. I think this is an excellent idea and fully endorse it. Such a coin should be increasingly useful in the future, particularly in view of the steady expansion of the vending machine industry.

The final recommendation in the Treasury Report is an endorsement of the plan sponsored by the Coinage Commission to dispose of the Treasury's 2.9 million rare silver dollars. While any plan for this purpose will have shortcomings—and this one is no exception—I think the plan is the best I have seen and deserves serious consideration by the Congress.

This then is a brief summary of the highlights of a program which, in my judgment, constitutes a reasonable and balanced approach to resolving the silver and coinage issues this Commission has been concerned with since its inception.

Exhibit 62.—Revocation of silver coin regulations, May 12, 1969

Title 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 82—SILVER COIN REGULATIONS

Revocation of Part

The Silver Coin Regulations are being revoked. This revocation terminates the prohibitions on the melting, treating or exporting from the United States of silver coin of the United States. These prohibitions applied to the silver dollar, the clad 40 percent silver half dollar, and the half dollar, quarter, and dime minted of silver nine-tenths fine. The revocation will not be retroactive and, therefore, will not operate to authorize any melting, treating, or exportation of silver coin which took place in violation of Part 82. Because the revocation relieves existing restriction, it is found, in accordance with 5 U.S.C. 553, that notice and public procedure thereon are unnecessary.

Accordingly, Part 82, Chapter I of Title 31 of the Code of Federal Regulations, is revoked. This revocation shall not be deemed to authorize any previous melting, treating, or exportation prohibited by Part 82, and all penalties, forfeitures, and liabilities under the regulations of this part or other applicable laws shall continue and may be enforced as if such revocation had not been made.

Effective date. This revocation shall be effective immediately.

Dated: May 12, 1969.

PAUL W. EGGERS,
General Counsel.

Exhibit 63.—Amendments to gold regulations governing gold medals, June 10, 1969

Title 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 54—GOLD REGULATIONS

Gold Medals for Public Display and Antique Gold Medals

Section 54.4(a)(14)(iii) of the Gold Regulations is being amended to authorize the Director of the Office of Domestic Gold and Silver Operations to license the acquisition, holding, transportation and exportation of gold-plated coins or gold medals which are either antique or are for public display by an institution serving the public. Prior to this amendment, licenses could only be issued for special award medals, designed and struck in small numbers for a specific presentation. Other uses of medals have not heretofore been considered as "customary industrial, professional or artistic use" and the holding of such medals was not licensed. However, the acquisition of gold medals, especially those struck over 100 years ago, will now be considered for licensing. In addition, limited numbers of commemorative medals for public display will be considered for licensing upon application by museums, libraries, and other public service institutions. Because the amendments relieve an existing restriction, it is found that notice and public procedure thereon are unnecessary.

Section 54.4(a)(14)(iii) is amended to read:

§ 54.4 Definitions.

(a) * * *

(14) * * *

(iii) The acquisition, holding, transportation, importation, or exportation of any gold-plated coins or gold medals other than: Special award medals; antique medals; and commemorative medals for regular public display by a museum or other institution serving the public.

* * * * * * *

(Sec. 5(b), 40 Stat. 415, as amended, secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b, E.O. 6260, Aug. 28, 1933, as amended by E.O. 10896, 25 F.R. 12281, E.O. 10905, 26 F.R. 321, E.O. 11037, 27 F.R. 6967; 3 CFR, 1959–63 Comp. and E.O. 6359, Oct. 25, 1933, E.O. 9193, as amended, 7 F.R. 5205; 3 CFR 1943, Cum. Supp., E.O. 10289, 16 F.R. 9499, 3 CFR, 1949–53 Comp.)

Effective date. These amendments shall become effective on publication in the FEDERAL REGISTER.

Dated: June 5, 1969.

[SEAL]

PAUL W. EGGERS,
General Counsel.

[F.R. Doc. 69–6860; Filed, June 10, 1969; 8:48 a.m.]

Organization and Procedure

Exhibit 64.—Secretaries, Under Secretaries, General Counsels, Assistant Secretaries, and Deputy Under Secretaries for Monetary Affairs serving in the Treasury Department from September 11, 1789, to January 20, 1969, and the Presidents under whom they served

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
		Secretaries of the Treasury		
Sept. 11, 1789	Jan. 31, 1795	Alexander Hamilton, New York		Washington.
Feb. 3, 1795	Dec. 31, 1800	Oliver Wolcott, Connecticut		Washington, Adams.
Jan. 1, 1801	May 13, 1801	Samuel Dexter, Massachusetts		Adams, Jefferson.
May 14, 1801	Feb. 9, 1814	Albert Gallatin, Pennsylvania [1]		Jefferson, Madison.
Feb. 9, 1814	Oct. 5, 1814	George W. Campbell, Tennessee		Madison.
Oct. 6, 1814	Oct. 21, 1816	Alexander J. Dallas, Pennsylvania		Madison.
Oct. 22, 1816	Mar. 6, 1825	Wm. H. Crawford, Georgia		Madison, Monroe.
Mar. 7, 1825	Mar. 5, 1829	Richard Rush, Pennsylvania [2]		Adams, J. Q.
Mar. 6, 1829	June 20, 1831	Samuel D. Ingham, Pennsylvania [3]		Jackson.
Aug. 8, 1831	May 28, 1833	Louis McLane, Delaware		Jackson.
May 29, 1833	Sept. 22, 1833	Wm. J. Duane, Pennsylvania		Jackson.
Sept. 23, 1833	June 25, 1834	Roger B. Taney, Maryland		Jackson.
July 1, 1834	Mar. 3, 1841	Levi Woodbury, New Hampshire		Jackson, Van Buren.
Mar. 6, 1841	Sept. 11, 1841	Thomas Ewing, Ohio		Harrison, Tyler.
Sept. 13, 1841	Mar. 1, 1843	Walter Forward, Pennsylvania		Tyler.
Mar. 8, 1843	May 2, 1844	John C. Spencer, New York [4]		Tyler.
July 4, 1844	Mar. 7, 1845	Geo. M. Bibb, Kentucky		Tyler, Polk.
Mar. 8, 1845	Mar. 5, 1849	Robt. J. Walker, Mississippi		Polk.
Mar. 8, 1849	July 22, 1850	Wm. M. Meredith, Pennsylvania		Taylor, Fillmore.
July 23, 1850	Mar. 6, 1853	Thos. Corwin, Ohio		Fillmore.
Mar. 7, 1853	Mar. 6, 1857	James Guthrie, Kentucky		Pierce.
Mar. 7, 1857	Dec. 8, 1860	Howell Cobb, Georgia		Buchanan.
Dec. 12, 1860	Jan. 14, 1861	Philip F. Thomas, Maryland		Buchanan.
Jan. 15, 1861	Mar. 6, 1861	John A. Dix, New York		Buchanan.

Mar. 7, 1861	June 30, 1864	Salmon P. Chase, Ohio	Lincoln.
July 5, 1864	Mar. 3, 1865	Wm. P. Fessenden, Maine	Lincoln.
Mar. 9, 1865	Mar. 3, 1869	Hugh McCulloch, Indiana [5]	Lincoln, Johnson.
Mar. 12, 1869	Mar. 16, 1873	Geo. S. Boutwell, Massachusetts	Grant.
Mar. 17, 1873	June 3, 1874	Wm. A. Richardson, Massachusetts	Grant.
June 4, 1874	June 20, 1876	Benj. H. Bristow, Kentucky	Grant.
July 7, 1876	Mar. 9, 1877	Lot M. Morrill, Maine	Grant.
Mar. 10, 1877	Mar. 3, 1881	John Sherman, Ohio	Grant, Hayes.
Mar. 8, 1881	Nov. 13, 1881	Wm. Windom, Minnesota [6]	Hayes.
Nov. 14, 1881	Sept. 4, 1884	Chas. J. Folger, New York	Garfield, Arthur.
Sept. 25, 1884	Oct. 30, 1884	Walter Q. Gresham, Indiana	Arthur.
Oct. 31, 1884	Mar. 7, 1885	Hugh McCulloch, Indiana [5]	Arthur.
Mar. 8, 1885	Mar. 31, 1887	Daniel Manning, New York	Arthur, Cleveland.
Apr. 1, 1887	Mar. 6, 1889	Chas. S. Fairchild, New York	Cleveland.
Mar. 7, 1889	Jan. 29, 1891	Wm. Windom, Minnesota [6]	Cleveland, Harrison.
Feb. 25, 1891	Mar. 6, 1893	Chas. Foster, Ohio	Harrison.
Mar. 7, 1893	Mar. 5, 1897	John G. Carlisle, Kentucky	Harrison, Cleveland.
Mar. 6, 1897	Jan. 31, 1902	Lyman J. Gage, Illinois	Cleveland, McKinley.
Feb. 1, 1902	Mar. 3, 1907	L. M. Shaw, Iowa	McKinley, Roosevelt.
Mar. 4, 1907	Mar. 7, 1909	George B. Cortelyou, New York	Roosevelt.
Mar. 8, 1909	Mar. 5, 1913	Franklin MacVeagh, Illinois	Roosevelt.
Mar. 6, 1913	Dec. 15, 1918	W. G. McAdoo, New York	Taft.
Dec. 16, 1918	Feb. 1, 1920	Carter Glass, Virginia	Wilson.
Feb. 2, 1920	Mar. 3, 1921	David F. Houston, Missouri	Wilson.
Mar. 4, 1921	Feb. 12, 1932	Andrew W. Mellon, Pennsylvania	Wilson.
			Harding, Coolidge, Hoover.
Feb. 13, 1932	Mar. 3, 1933	Ogden L. Mills, New York	Hoover.
Mar 4, 1933	Dec. 31, 1933	William H. Woodin, New York	Roosevelt.
Jan. 1, 1934	July 22, 1945	Henry Morgenthau, Jr., New York	Roosevelt, Truman.
July 23, 1945	June 23, 1946	Fred M. Vinson, Kentucky	Truman.
June 25, 1946	Jan. 20, 1953	John W. Snyder, Missouri	Truman.
Jan. 21, 1953	July 28, 1957	George M. Humphrey, Ohio	Eisenhower.
July 29, 1957	Jan. 20, 1961	Robert B. Anderson, Connecticut	Eisenhower.
Jan. 21, 1961	Apr. 1, 1965	Douglas Dillon, New Jersey	Kennedy, Johnson.
Apr. 1, 1965	Dec. 20, 1968	Henry H. Fowler, Virginia	Johnson.
Dec. 21, 1968	Jan. 20, 1969	Joseph W. Barr, Indiana	Johnson.

Footnotes at end of table.

Exhibit 64.—Secretaries, Under Secretaries, General Counsels, Assistant Secretaries, and Deputy Under Secretaries for Monetary Affairs serving in the Treasury Department from September 11, 1789, to January 20, 1969, and the Presidents under whom they served—Continued

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
		Under Secretaries [7]		
July 1, 1921	Nov. 17, 1923	S. Parker Gilbert, Jr., New Jersey	Mellon	Harding, Coolidge.
Nov. 20, 1923	Feb. 1, 1927	Garrard B. Winston, Illinois	Mellon	Coolidge.
Mar. 4, 1927	Feb. 12, 1932	Ogden L. Mills, New York [8]	Mellon	Coolidge, Hoover.
Feb. 13, 1932	May 15, 1933	Arthur A. Ballantine, New York	Mills, Woodin	Hoover, Roosevelt.
May 19, 1933	Nov. 16, 1933	Dean G. Acheson, Maryland	Woodin	Roosevelt.
Nov. 17, 1933	Dec. 31, 1933	Henry Morgenthau, Jr., New York [8]	Woodin	Roosevelt.
May 2, 1934	Feb. 15, 1936	Thomas Jefferson Coolidge, Massachusetts	Morgenthau	Roosevelt.
Jan. 29, 1937	Sept. 15, 1938	Roswell Magill, New York	Morgenthau	Roosevelt.
Nov. 1, 1938	Dec. 31, 1939	John W. Hanes, North Carolina	Morgenthau	Roosevelt.
Jan. 18, 1940	Dec. 31, 1945	Daniel W. Bell, Illinois	Morgenthau, Vinson	Roosevelt, Truman.
Mar. 4, 1946	Jan. 14, 1947	O. Max Gardner, North Carolina	Vinson, Snyder	Truman.
Jan. 23, 1947	July 14, 1948	A. L. M. Wiggins, South Carolina	Snyder	Truman.
July 15, 1948	Jan. 20, 1953	Edward H. Foley, New York	Snyder	Truman.
Jan. 28, 1953	July 31, 1955	Marion B. Folsom, New York	Humphrey	Eisenhower.
Aug. 3, 1955	Jan. 31, 1956	H. Chapman Rose, Ohio	Humphrey	Eisenhower.
Aug. 9, 1957	Jan. 20, 1961	Fred C. Scribner, Jr., Maine	Anderson	Eisenhower.
Feb. 3, 1961	Apr. 10, 1964	Henry H. Fowler, Virginia [8]	Dillon	Kennedy, Johnson.
Apr. 29, 1965	Dec. 20, 1968	Joseph W. Barr, Indiana.[8]	Fowler	Johnson.
		Under Secretaries for Monetary Affairs [9]		
Aug. 3, 1954	Sept. 25, 1957	W. Randolph Burgess, Maryland	Humphrey, Anderson	Eisenhower.
Sept. 30, 1957	Jan. 20, 1961	Julian B. Baird, Minnesota	Anderson	Eisenhower.
Jan. 31, 1961	Dec. 31, 1964	Robert V. Roosa, New York	Dillon	Kennedy, Johnson.
Feb. 1, 1965	Jan. 20, 1969	Fredrick L. Deming, Minnesota	Fowler, Barr	Johnson.

		General Counsels [10]		
June 20, 1934	Jan. 11, 1939	Herman Oliphant, Maryland	Morgenthau	Roosevelt.
May 19, 1939	July 24, 1942	Edward H. Foley, Jr., New York [11]	Morgenthau	Roosevelt.
Aug. 7, 1942	Mar. 22, 1944	Randolph E. Paul, New York	Morgenthau	Roosevelt.
May 10, 1944	Aug. 11, 1947	Joseph J. O'Connell, Jr., New York	Morgenthau, Vinson, Snyder.	Roosevelt, Truman.
June 10, 1948	Jan. 20, 1953	Thomas J. Lynch, Ohio	Snyder	Truman.
Jan. 30, 1953	Sept. 1, 1954	Elbert P. Tuttle, Georgia	Humphrey	Eisenhower.
Jan. 26, 1955	Aug. 2, 1955	David W. Kendall, Michigan [12]	Humphrey	Eisenhower.
Sept. 22, 1955	Apr. 17, 1957	Fred C. Scribner, Jr., Maine [11]	Humphrey	Eisenhower.
Jan. 28, 1958	Oct. 1, 1959	Nelson P. Rose, Ohio	Anderson	Eisenhower.
Oct. 2, 1959	Jan. 20, 1961	David A. Lindsay, New York	Anderson	Eisenhower.
Apr. 5, 1961	Oct. 6, 1962	Robert H. Knight, Virginia	Dillon	Kennedy.
Nov. 16, 1962	Jan. 31, 1965	G. d'Andelot Belin, Massachusetts	Dillon	Kennedy, Johnson.
Apr. 12, 1966	Jan. 20, 1969	Fred B. Smith, Maryland	Fowler, Barr	Johnson.
		Assistant Secretaries [13]		
Mar. 12, 1849	Oct. 9, 1849	Charles B. Penrose, Pennsylvania	Meredith	Taylor.
Oct. 10, 1849	Nov. 15, 1850	Allen A. Hall, Pennsylvania	Meredith, Corwin	Taylor, Fillmore.
Nov. 16, 1850	Mar. 13, 1853	William L. Hodge, Tennessee	Corwin, Guthrie	Fillmore, Pierce.
Mar. 14, 1853	Mar. 12, 1857	Peter G. Washington, District of Columbia	Guthrie, Cobb	Pierce, Buchanan.
Mar. 13, 1857	Jan. 16, 1861	Philip Clayton, Georgia	Cobb, Thomas, Dix	Buchanan.
Mar. 13, 1861	July 11, 1865	George Harrington, District of Columbia [14]	Chase, Fessenden, McCulloch.	Lincoln, Johnson.
Mar. 18, 1864	June 15, 1865	Maunsell B. Field, New York	Chase, Fessenden, McCulloch.	Lincoln, Johnson.
Jan. 5, 1865	Nov. 30, 1867	William E. Chandler, New Hampshire	Fessenden, McCulloch	Lincoln, Johnson.
July 11, 1865	May 4, 1875	John F. Hartley, Maine	McCulloch, Boutwell, Richardson, Bristow.	Johnson, Grant.
Dec. 2, 1867	May 31, 1868	Edmund Cooper, Tennessee	McCulloch	Johnson.
Mar. 20, 1869	Mar. 17, 1873	William A. Richardson, Massachusetts	Boutwell	Grant.
Mar. 8, 1873	June 11, 1874	Frederick A. Sawyer, South Carolina	Richardson, Bristow	Grant.
July 1, 1874	Apr. 3, 1877	Charles F. Conant, New Hampshire	Bristow, Morrill, Sherman.	Grant, Hayes.
Mar. 4, 1875	June 30, 1876	Curtis F. Burnam, Kentucky	Bristow	Grant.

Footnotes at end of table.

Exhibit 64.—Secretaries, Under Secretaries, General Counsels, Assistant Secretaries, and Deputy Under Secretaries for Monetary Affairs serving in the Treasury Department from September 11, 1789, to January 20, 1969, and the Presidents under whom they served—Continued

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
		Assistant Secretaries [13]—Continued		
Aug. 12, 1876	Mar. 9, 1885	Henry F. French, Massachusetts	Morrill, Sherman, Windom, Folger, Gresham, McCulloch, Manning.	Grant, Hayes, Garfield, Arthur, Cleveland.
Apr. 3, 1877	Dec. 8, 1877	Richard C. McCormick, Arizona	Sherman	Hayes.
Dec. 9, 1877	Mar. 31, 1880	John B. Hawley, Illinois	Sherman	Hayes.
Apr. 10, 1880	Dec. 31, 1881	J. Kendrick Upton, New Hampshire	Sherman, Windom, Folger.	Hayes, Garfield, Arthur.
Feb. 28, 1882	Apr. 16, 1884	John C. New, Indiana	Folger	Arthur.
Apr. 17, 1884	Nov. 10, 1885	Charles E. Coon, New York	Folger, Gresham, McCulloch, Manning.	Arthur, Cleveland.
Mar. 14, 1885	Apr. 1, 1887	Charles S. Fairchild, New York [8]	Manning	Cleveland.
Nov. 10, 1885	June 30, 1886	William E. Smith, New York	Manning	Cleveland.
July 12, 1886	Mar. 12, 1889	Hugh S. Thompson, South Carolina	Manning, Fairchild, Windom.	Cleveland, Harrison.
Apr. 6, 1887	Mar. 11, 1889	Isaac N. Maynard, New York	Fairchild, Windom	Cleveland, Harrison.
Apr. 1, 1889	July 20, 1890	George H. Tichner, Illinois	Windom	Harrison.
Apr. 1, 1889	Oct. 31, 1890	George T. Batchelder, New York [15]	Windom	Harrison.
July 22, 1890	Dec. 1, 1892	A. B. Nettleton, Minnesota	Windom, Foster	Harrison.
July 23, 1890	June 30, 1893	Oliver L. Spaulding, Michigan	Windom, Foster, Carlisle.	Harrison, Cleveland.
Apr. 27, 1891	Oct. 31, 1892	Lorenzo Crounse, Nebraska	Foster	Harrison.
Nov. 22, 1892	Mar. 3, 1893	John H. Gear, Iowa	Foster	Harrison.
Dec. 23, 1892	Apr. 3, 1893	Genio M. Lambertson, Nebraska	Foster, Carlisle	Harrison, Cleveland.

Apr. 12, 1893	Apr. 7, 1897	Charles S. Hamlin, Massachusetts	Carlisle, Gage	Cleveland, McKinley.
Apr. 13, 1893	Mar. 31, 1897	William E. Curtis, New York	Carlisle, Gage	Cleveland, McKinley.
July 1, 1893	May 4, 1897	Scott Wike, Illinois	Carlisle, Gage	Cleveland, McKinley.
Apr. 7, 1897	Mar. 10, 1899	William B. Howell, New Jersey	Gage	McKinley.
Apr. 7, 1897	Mar. 4, 1903	Oliver L. Spaulding, Michigan	Gage, Shaw	McKinley, Roosevelt.
June 1, 1897	Mar. 5, 1901	Frank A. Vanderlip, Illinois	Gage	McKinley.
Mar. 13, 1899	June 3, 1906	Horace A. Taylor, Wisconsin	Gage, Shaw	McKinley, Roosevelt.
Mar. 6, 1901	Apr. 15, 1903	Milton E. Ailes, Ohio	Gage, Shaw	McKinley, Roosevelt.
Mar. 5, 1903	Mar. 5, 1905	Robert B. Armstrong, Iowa	Shaw	Roosevelt.
May 27, 1903	Jan. 21, 1907	Charles H. Keep, New York	Shaw	Roosevelt.
Mar. 6, 1905	Nov. 1, 1909	James B. Reynolds, Massachusetts	Shaw, Cortelyou, MacVeagh.	Roosevelt, Taft.
July 1, 1906	Mar. 15, 1908	John H. Edwards, Ohio	Shaw, Cortelyou	Roosevelt.
Jan. 22, 1907	Feb. 28, 1907	Arthur F. Statter, Oregon	Shaw	Roosevelt.
Apr. 23, 1907	Mar. 6, 1909	Beekman Winthrop, New York	Cortelyou	Roosevelt.
Mar. 17, 1908	Apr. 10, 1909	Louis A. Coolidge, Massachusetts	Cortelyou, MacVeagh.	Roosevelt, Taft.
Apr. 5, 1909	June 8, 1910	Charles D. Norton, Illinois	MacVeagh	Taft.
Apr. 19, 1909	Apr. 3, 1911	Charles D. Hilles, New York	MacVeagh	Taft.
Nov. 27, 1909	July 31, 1913	James F. Curtis, Massachusetts	MacVeagh, MacAdoo	Taft, Wilson.
June 8, 1910	July 3, 1912	A. Piatt Andrews, Massachusetts	MacVeagh	Taft.
Apr. 4, 1911	Mar. 3, 1913	Robert O. Bailey, Illinois	MacVeagh	Taft.
July 20, 1912	Sept. 30, 1913	Sherman P. Allen, Vermont	MacVeagh, McAdoo	Taft, Wilson.
Mar. 24, 1913	Feb. 2, 1914	John Skelton Williams, Virginia	McAdoo	Wilson.
Aug. 1, 1913	Aug. 9, 1914	Charles S. Hamlin, Massachusetts	McAdoo	Wilson.
Oct. 1, 1913	Sept. 30, 1917	Byron R. Newton, New York	McAdoo	Wilson.
Mar. 24, 1914	Jan. 26, 1917	William P. Malburn, Colorado	McAdoo	Wilson.
Aug. 17, 1914	Mar. 15, 1917	Andrew J. Peters, Massachusetts	McAdoo	Wilson.
Apr. 17, 1917	Aug. 28, 1918	Oscar T. Crosby, Virginia	McAdoo	Wilson.
June 22, 1917	Nov. 20, 1919	Leo S. Rowe, Pennsylvania	McAdoo, Glass	Wilson.
Oct. 5, 1917	Aug. 26, 1921	James H. Moyle, Utah	McAdoo, Glass, Houston, Mellon.	Wilson, Harding.
Oct. 30, 1917	July 5, 1920	Russell C. Leffingwell, New York [16]	McAdoo, Glass, Houston.	Wilson.
Dec. 15, 1917	Jan. 31, 1919	Thomas B. Love, Texas	McAdoo, Glass	Wilson.

Footnotes at end of table.

Exhibit 64.—Secretaries, Under Secretaries, General Counsels, Assistant Secretaries and Deputy Under Secretaries for Monetary Affairs serving in the Treasury Department from September 11, 1789, to January 20, 1969, and the Presidents under whom they served—Continued

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
		Assistant Secretaries [13]—Continued		
Sept. 4, 1918	June 30, 1920	Albert Rathbone, New York	McAdoo, Glass, Houston.	Wilson.
Mar. 5, 1919	Nov. 15, 1920	Jouett Shouse, Kansas	Glass, Houston	Wilson.
Nov. 21, 1919	June 14, 1920	Norman H. Davis, Tennessee	Glass, Houston	Wilson.
June 15, 1920	Apr. 14, 1921	Nicholas Kelley, New York	Houston, Mellon	Wilson, Harding.
July 6, 1920	June 30, 1921	S. Parker Gilbert, Jr., New Jersey [17]	Houston, Mellon	Wilson, Harding.
Dec. 4, 1920	May 31, 1921	Ewing Laporte, Missouri	Houston, Mellon	Wilson, Harding.
Dec. 4, 1920	Mar. 4, 1921	Angus W. McLean, North Carolina	Houston	Wilson.
Mar. 16, 1921	Mar. 31, 1925	Eliot Wadsworth, Massachusetts	Mellon	Harding, Coolidge.
May 4, 1921	July 9, 1923	Edward Clifford, Illinois	Mellon	Harding.
Dec. 23, 1921	July 25, 1922	Elmer Dover, Washington	Mellon	Harding.
Mar. 3, 1923	June 13, 1926	McKenzie Moss, Kentucky	Mellon	Harding, Coolidge.
July 9, 1923	Nov. 19, 1923	Garrard B. Winston, Illinois [17]	Mellon	Harding, Coolidge.
July 1, 1924	Nov. 5, 1927	Charles S. Dewey, Illinois	Mellon	Coolidge.
Apr. 1, 1925	July 31, 1927	Lincoln C. Andrews, New York	Mellon	Coolidge.
Dec. 28, 1926	June 25, 1929	Carl T. Schuneman, Minnesota	Mellon	Coolidge, Hoover.
Aug. 1, 1927	Mar. 15, 1933	Seymour Lowman, New York	Mellon	Coolidge, Hoover.
Nov. 7, 1927	Sept. 1, 1929	Henry Herrick Bond, Massachusetts	Mellon	Coolidge, Hoover.
June 26, 1929	Apr. 17, 1933	Ferry K. Heath, Michigan	Mellon	Hoover.
Nov. 21, 1929	Mar. 15, 1931	Walter Ewing Hope, New York	Mellon	Hoover.
Mar. 16, 1931	Feb. 12, 1932	Arthur A. Ballantine, New York [17]	Mellon	Hoover.
Mar. 9, 1932	June 11, 1933	James H. Douglas, Jr., Illinois	Mills	Hoover.
Apr. 18, 1933	Feb. 15, 1936	Lawrence W. Robert, Jr., Georgia	Woodin, Morgenthau	Roosevelt.
June 6, 1933	Sept. 30, 1939	Stephen B. Gibbons, New York	Woodin, Morgenthau	Roosevelt.

June 12, 1933	Dec. 12, 1933	Thomas Hewes, Connecticut	Woodin	Roosevelt.
Dec. 1, 1934	Nov. 1, 1937	Josephine Roche, Colorado	Morgenthau	Roosevelt.
Feb. 19, 1936	Feb. 28, 1939	Wayne C. Taylor, Illinois	Morgenthau	Roosevelt.
July 1, 1938	Oct. 31, 1938	John W. Hanes, North Carolina [17]	Morgenthau	Roosevelt.
June 23, 1939	Dec. 2, 1945	Herbert E. Gaston, New York	Morgenthau, Vinson	Roosevelt, Truman.
Jan. 18, 1940	Nov. 30, 1944	John L. Sullivan, New Hampshire	Morgenthau	Roosevelt.
Jan. 24, 1945	May 1, 1946	Harry D. White, Maryland	Morgenthau, Vinson	Roosevelt, Truman.
Apr. 15, 1946	July 14, 1948	Edward H. Foley, New York [11]	Vinson, Snyder	Truman.
July 16, 1948	Jan. 20, 1953	John S. Graham, North Carolina	Snyder	Truman.
Feb. 8, 1949	Mar. 31, 1951	William McChesney Martin, Jr., New York	Snyder	Truman.
Jan. 24, 1952	Feb. 28, 1957	Andrew N. Overby, District of Columbia	Snyder, Humphrey	Truman, Eisenhower.
Jan. 28, 1953	Aug. 2, 1955	H. Chapman Rose, Ohio [17]	Humphrey	Eisenhower.
Sept. 20, 1954	Jan. 20, 1961	Laurence B. Robbins, Illinois [18]	Humphrey, Anderson	Eisenhower.
Aug. 3, 1955	Dec. 15, 1957	David W. Kendall, Michigan	Humphrey, Anderson	Eisenhower.
Apr. 18, 1957	Aug. 8, 1957	Fred C. Scribner, Jr., Maine [11]	Humphrey, Anderson	Eisenhower.
Dec. 4, 1957	Dec. 15, 1958	Tom B. Coughran, California	Anderson	Eisenhower.
Dec. 16, 1957	Dec. 19, 1961	A. Gilmore Flues, Ohio	Anderson, Dillon	Eisenhower, Kennedy.
Dec. 17, 1958	Dec. 18, 1960	T. Graydon Upton, Pennsylvania	Anderson	Eisenhower.
Dec. 20, 1960	Jan. 20, 1961	John P. Weitzel, Rhode Island	Anderson	Eisenhower.
Apr. 5, 1961	Oct. 31, 1962	John M. Leddy, Virginia	Dillon	Kennedy.
Apr. 24, 1961	Jan. 20, 1969	Stanley S. Surrey, Massachusetts	Dillon, Fowler, Barr	Kennedy, Johnson.
Dec. 20, 1961	Sept. 1, 1965	James A. Reed, Massachusetts	Dillon, Fowler	Kennedy, Johnson.
Dec. 18, 1962	Oct. 15, 1964	John C. Bullitt, New Jersey	Dillon	Kennedy, Johnson.
Sept. 18, 1963	Jan. 20, 1969	Robert A. Wallace, Illinois [19]	Dillon, Fowler, Barr	Kennedy, Johnson.
Apr. 29, 1965	June 10, 1966	Merlyn N. Trued, New Jersey	Fowler	Johnson.
Sept. 14, 1965	Jan. 15, 1968	W. True Davis, Jr., Missouri	Fowler	Johnson.
Aug. 2, 1966	Jan. 31, 1968	Winthrop Knowlton, New York	Fowler	Johnson.
Mar. 19, 1968	Jan. 20, 1969	Joseph M. Bowman, Georgia	Fowler, Barr	Johnson.
May 15, 1968	----------	John R. Petty, New York	Fowler, Barr	Johnson.
		Deputy Under Secretaries for Monetary Affairs		
Dec. 21, 1961	Nov. 28, 1963	J. Dewey Daane, District of Columbia	Dillon	Kennedy, Johnson.
Dec. 3, 1963	Nov. 23, 1965	Paul A. Volcker, New Jersey	Dillon, Fowler	Johnson.
Nov. 24, 1965	Nov. 11, 1967	Peter D. Sternlight, New York	Fowler	Johnson.
Feb. 12, 1968	----------	Frank W. Schiff, New York	Fowler, Barr	Johnson.

Footnotes at end of table.

Exhibit 64.—Secretaries, Under Secretaries, General Counsels, Assistant Secretaries, and Deputy Under Secretaries for Monetary Affairs serving in the Treasury Department from September 11, 1789, to January 20, 1969, and the Presidents under whom they served—Continued

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
		Fiscal Assistant Secretaries [20]		
Mar. 16, 1945	June 17, 1955	Edward F. Bartelt, Illinois	Morgenthau, Vinson, Snyder, Humphrey.	Roosevelt, Truman, Eisenhower.
June 19, 1955	Mar. 31, 1962	William T. Heffelfinger, District of Columbia	Humphrey, Anderson, Dillon.	Eisenhower, Kennedy.
June 15, 1962		John K. Carlock, Arizona	Dillon, Fowler, Barr	Kennedy, Johnson.
		Assistant Secretaries for Administration [21]		
Aug. 2, 1950	Aug. 31, 1959	William W. Parsons, California	Snyder, Humphrey, Anderson.	Truman, Eisenhower.
Sept. 14, 1959		A. E. Weatherbee, Maine	Anderson, Dillon, Fowler, Barr.	Eisenhower, Kennedy, Johnson.

1 While holding the office of Secretary of the Treasury, Mr. Gallatin was commissioned envoy extraordinary and minister plenipotentiary Apr. 17, 1813, with John Quincy Adams and James A. Bayard, to negotiate peace with Great Britain. On Feb. 9, 1814, his seat as Secretary of the Treasury was declared vacant because of his absence in Europe. William Jones, of Pennsylvania (Secretary of the Navy), acted as ad interim Secretary of the Treasury from Apr. 21, 1813, to Feb. 9, 1814.

2 Rush was nominated Mar. 5, 1825, confirmed and commissioned Mar. 7, 1825, but did not enter on duty until Aug. 1, 1825. Samuel L. Southard, of New Jersey (Secretary of the Navy), served as ad interim Secretary of the Treasury from Mar. 7 to July 31, 1825.

3 Asbury Dickens (Chief Clerk), ad interim Secretary of the Treasury from June 21 to Aug. 7, 1831.

4 Spencer resigned as Secretary of the Treasury May 2, 1844; McClintock Young (Chief Clerk), was ad interim Secretary of the Treasury from May 2 to July 3, 1844.

5 Hugh McCulloch was Secretary from Mar. 9, 1865, to Mar. 3, 1869, and from Oct. 31, 1884, to Mar. 7, 1885.

6 William Windom was Secretary from Mar. 8, 1881, to Nov. 13, 1881, and also from Mar. 7, 1889, to Jan. 29, 1891.

7 Office established by act of June 16, 1921; appointed by the President.

8 Later became Secretary.

9 Office established by act of July 22, 1954; appointed by the President.

10 Office established by act of May 10, 1934 (5 U.S.C. 248a); appointed by the President.

11 Later became Assistant Secretary and subsequently Under Secretary.

12 Later became Assistant Secretary.

13 Office established by act of Mar. 3, 1849; appointed by the Secretary. Act of Mar. 3, 1857, made the office subject to presidential appointment.

14 Act of Mar. 14, 1864, provided for an additional Assistant Secretary.

15 Act of July 11, 1890, provided for an additional Assistant Secretary.

16 Act of Oct. 6, 1917, provided for 2 additional Assistant Secretaries for the duration of war and 6 months thereafter.

17 Later became Under Secretary.

18 Act of July 22, 1954, provided for an additional Assistant Secretary.

19 Act of July 8, 1963, provided for a 4th Assistant Secretary.

20 Office established by Reorganization Plan No. 3 of 1940.

21 Office established by Reorganization Plan No. 26, of 1950. Title changed from "Administrative Assistant Secretary" to "Assistant Secretary for Administration" by Public Law 88–426, approved Aug. 14, 1964. Appointed by the Secretary with the approval of the President.

NOTE.—Robert Morris, the first financial officer of the Government, was Superintendent of Finance from 1781 to 1784. Upon the resignation of Morris, the powers conferred upon him were transferred to the "Board of the Treasury." Those who finally accepted positions on this board were John Lewis Gervais, Samuel Osgood, and Walter Livingston. The Board served until Alexander Hamilton assumed office in 1789.

Exhibit 65.—Treasury Department orders relating to organization and procedure

No. 72, Revised, November 14, 1968.—Delegation of Authority To Authorize or Approve Travel

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, which was delegated to me by Treasury Department Order No. 190, as revised, and pursuant to the provisions of Bureau of the Budget Circular No. A–7, Revised, it is hereby ordered that:

(1) The following officials of the Department of the Treasury may authorize or approve travel on official business of the Department performed by themselves or by civilian officers and employees under their jurisdiction and may approve advances of funds in connection therewith:

Commissioner of Accounts
Commissioner of Customs
Director, Bureau of Engraving and Printing
Commissioner of Internal Revenue
Commissioner of the Public Debt
Treasurer of the United States
Comptroller of the Currency
Director of the Mint
National Director, U.S. Savings Bonds Division
Director, U.S. Secret Service

These foregoing officials are authorized to redelegate this authority to appropriate subordinate officials.

(2) The exercise of the authority delegated by subparagraph (1) above, shall be in accordance with applicable provisions of the Standardized Government Travel Regulations and such administrative instructions and procedures as may be prescribed by the Assistant Secretary for Administration.

(3) This order becomes effective immediately and supersedes Treasury Department Order No. 72 Revised, dated June 10, 1968.

A. E. Weatherbee,
Assistant Secretary for Administration.

No. 72–1, Revision of November 14, 1968.—Delegation of Authority To Authorize or Approve Travel

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, which was delegated to me by Treasury Department Order No. 190, as revised, and pursuant to the provisions of Bureau of the Budget Circular No. A–7, Revised, it is hereby ordered that:

(1) The following officials of the Office of the Secretary of the Treasury, or in their absence their deputies, may authorize or approve travel on official business of the Department performed by themselves or by civilian officers and employees under their jurisdiction, and may approve advances of funds in connection therewith:

Under Secretary
Under Secretary for Monetary Affairs
General Counsel
Assistant Secretaries
Special Assistant to the Secretary (for Enforcement)
Deputy Under Secretary for Monetary Affairs
Fiscal Assistant Secretary
Assistants to the Secretary

(2) The exercise of the authority delegated by subparagraph (1) above shall be in conformance with the provisions of Administrative Circular No. 5 (Revised), dated October 12, 1965, and Office of Administrative Services Circular No. 47 (Revised), dated September 5, 1968.

(3) This order becomes effective immediately and supersedes Treasury Department Order No. 72–1 dated August 12, 1966.

A. E. Weatherbee,
Assistant Secretary for Administration.

No. 72–1, Revision of March 25, 1969.—Delegation of Authority To Authorize or Approve Travel

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, which was delegated to me by Treasury Department Order No. 190, as revised, and pursuant to the provisions of Bureau of the Budget Circular No. A–7, Revised, it is hereby ordered that:

(1) The following officials of the Office of the Secretary of the Treasury, or in their absence their deputies, may authorize or approve travel on official business of the Department performed by themselves or by civilian officers and employees under their jurisdiction, and may approve advances of funds in connection therewith:

Under Secretary
Under Secretary for Monetary Affairs
General Counsel
Assistant Secretaries
Deputy Under Secretary for Monetary Affairs
Fiscal Assistant Secretary
Assistant to the Secretary
Special Assistants to the Secretary

(2) The exercise of the authority delegated by subparagraph (1) above shall be in conformance with the provisions of Administrative Circular No. 5 (Revised), dated October 12, 1965, and Office of Administrative Services Circular No. 47 (Revised), dated September 5, 1968.

(3) This order becomes effective immediately and supersedes Treasury Department Order No. 72–1 (Revised), dated November 14, 1968.

A. E. Weatherbee,
Assistant Secretary for Administration.

No. 72–2, November 14, 1968.—Delegation of Authority To Approve Claims for Taxicab and Certain Private Vehicle Expenses

Pursuant to authority vested in the Secretary of the Treasury including the authority in Reorganization Plan No. 26 of 1950, which has been delegated to me by Treasury Department Order No. 190, as revised, authority is hereby delegated to the following officials in the Office of the Secretary and deputies or assistants designated to act in their absence, to approve claims by them and members of their staffs for reimbursement of expenses incurred for the use of taxicabs and privately owned vehicles for official transportation within the Washington metropolitan area whenever it is advantageous to the Government to do so:

Executive Pay Level Officials
Assistants to the Secretary
Special Assistants to the Secretary
Office Directors

Approved claims for reimbursement which are payable from the appropriation "Salaries and Expenses, Office of the Secretary of the Treasury" should be submitted on Standard Form 1164, and forwarded for payment to the Supply Branch, Office of Administrative Services. Claims which are proper charges to the Exchange Stabilization Fund should be forwarded to the Office of Administration, Exchange Stabilization Fund. It is suggested that if practicable these claims be submitted on a monthly basis.

This order shall be effective immediately and supersedes Treasury Department Order No. 72–1, Supplement No. 1, dated October 27, 1966.

A. E. Weatherbee,
Assistant Secretary for Administration.

No. 107, Revision No. 12, June 16, 1969.—Delegation of Authority To Affix the Official Treasury Seal

By virtue of the authority vested in the Secretary of the Treasury, including the authority conferred by 5 U.S.C. 301, and by virtue of the authority delegated to me by Treasury Department Order No. 190 (Revised), it is hereby ordered that:

1. Except as provided in paragraph 2, the following officers are authorized to affix the Seal of the Treasury Department in the authentication of originals and copies of books, records, papers, writings, and documents of the Department, for all purposes, including the purposes authorized by 28 U.S.C. 1733(b):

(a) In the Office of Administrative Services:
(1) Director of Administrative Services
(2) Chief, General Services Division
(3) Chief, Printing and Procurement Division
(4) Chief, Directives Control and Distribution Branch

(b) In the Internal Revenue Service:
(1) Commissioner of Internal Revenue
(2) Director, and Assistant Director, Collection Division
(3) Chief, and Assistant Chief, Disclosure and Liaison Branch, Collection Division
(4) Director, Assistant Director and Technical Advisor, Alcohol, Tobacco and Firearms Division
(5) Chief, and Assistant Chief, Enforcement Branch Alcohol, Tobacco and Firearms Division
(6) Chief, and Assistant Chief, Operations-Coordination Section, Enforcement Branch, Alcohol, Tobacco and Firearms Division

(c) In the Bureau of Customs:
(1) Commissioner of Customs
(2) Deputy Commissioner of Customs
(3) Assistant Commissioner of Customs (Administration)
(4) Assistant Commissioner of Customs (Investigations)
(5) Assistant Commissioner of Customs (Operations)
(6) Assistant Commissioner of Customs (Regulations and Rulings)

(d) In the Bureau of the Public Debt:
(1) Commissioner of the Public Debt
(2) Deputy Commissioner in Charge of the Chicago Office
(3) Assistant Deputy Commissioner in Charge of the Chicago Office

2. Copies of documents which are to be published in the Federal Register may be certified only by the officers named in paragraph 1(a) of this Order.

3. The Director of Administrative Services, the Commissioner of Internal Revenue Service, and the Commissioner of the Public Debt are authorized to procure and maintain custody of the dies of the Treasury Seal.

The officers authorized in paragraph 1(c) may make use of such dies.

A. E. WEATHERBEE,
Assistant Secretary for Administration.

No. 128, Revision No. 3, August 9, 1968.—Delegation of Authority and Functions to the Director of the Office of Foreign Assets Control

Treasury Department Order No. 128 (Revision 2) published in the Federal Register March 2, 1967, 32 F.R. 3472, is hereby amended by the deletion in the introductory paragraph of the words "including section 161 of the Revised Statutes (5 U.S.C. 22)" and the insertion in paragraph (2)(ii) of the words "and Executive Order 11419 of July 29, 1968." As amended, the Order reads as follows:

"By virtue of the authority vested in me as Secretary of the Treasury I hereby order that:

"(1) There is established in the Treasury Department the Office of Foreign Assets Control, successor to Foreign Funds Control. The Office shall function under the immediate supervision of a Director of Foreign Assets Control, who shall be designated, with my approval, by the Assistant Secretary for International Affairs. The Director shall report to the Assistant Secretary for International Affairs through the Assistant to the Secretary (National Security Affairs).

"(2) The Director of Foreign Assets Control shall exercise and perform all authority, duties, and functions which I am authorized or required to exercise or perform under:

"(i) Sections 3 and 5(b) of the Trading with the Enemy Act, as amended, and any proclamations, orders, regulations or rulings that have been or may be issued thereunder; and

"(ii) Executive Order 11322 of January 5, 1967, and Executive Order 11419 of July 29, 1968, issued pursuant to Section 5 of the United Nations Participation Act of 1945 and all other authority residing in the President.

"(3) The Director of Foreign Assets Control shall be assisted in the exercise and performance of such authority, duties and functions by such assistants and other staff as may be appointed or detailed for the purpose.

"(4) This Order shall take effect immediately."

JOSEPH W. BARR,
Acting Secretary.

No. 130, REVISED, NOVEMBER 4, 1968.—DELEGATION OF AUTHORITY CONCERNING CERTIFICATION OF TELEPHONE TOLL CHARGES

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, which was delegated to me by Treasury Department Order No. 190, as revised, it is hereby ordered that:

(1) The following officials, in accordance with Section 4 of the Act of May 10, 1939 (31 U.S.C. 680a), may certify that the use of a telephone for official long-distance calls was necessary in the interest of the Government:

Commissioner of Accounts
Director of Administrative Services
Comptroller of the Currency
Commissioner of Customs
Director, Bureau of Engraving and Printing
Commissioner of Internal Revenue
Assistant Secretary for International Affairs
Director of the Mint
Commissioner of the Public Debt
Treasurer of the United States
National Director, U.S. Savings Bonds Division
Director, U.S. Secret Service

These foregoing officials are authorized to redelegate this authority to appropriate subordinate officials.

(2) The original of each order designating a subordinate to make the certification required by this Act shall be maintained so as to be readily available to the General Accounting Office.

(3) This order supersedes Treasury Department Order No. 130, Revision No. 2, dated November 2, 1960.

A. E. WEATHERBEE,
Assistant Secretary for Administration.

No. 147-6, JUNE 5, 1969.—ASSIGNMENT OF INTERPOL FUNCTIONS TO THE ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, the Assistant Secretary (Enforcement and Operations) is hereby designated, effective immediately, to serve as the United States representative to the International Criminal Police Organization (INTERPOL). In this capacity he will deal with all questions relating to INTERPOL dues, INTERPOL functions, obligations of membership and agenda of and representation at INTERPOL conferences and General Assembly sessions.

This order modifies Treasury Department Order 147-5 of March 29, 1968.

DAVID M. KENNEDY,
Secretary of the Treasury.

No. 150-67, OCTOBER 11, 1968.—DELEGATION OF AUTHORITY TO COMPILE AND PUBLISH ORDINANCES PERTAINING TO FIREARMS

By virtue of the authority vested in me by Reorganization Plan No. 26 of 1950, there is hereby delegated to the Commissioner of Internal Revenue, the function under Chapter 44, Title 18, United States Code, of compiling, revising annually, publishing in the Federal Register, and distributing the list of published laws

of political subdivisions of States determined to be relevant to the enforcement of Chapter 44, Title 18, United States Code, pertaining to firearms.

The authority herein delegated to the Commissioner of Internal Revenue may be redelegated by him to any subordinate officer or employee.

HENRY H. FOWLER,
Secretary of the Treasury.

No. 150–45, REVISION NO. 1, NOVEMBER 22, 1968.—DELEGATION OF AUTHORITY TO PRESCRIBE RULES AND REGULATIONS TO ENFORCE THE FEDERAL FIREARMS ACT

The Commissioner of Internal Revenue is hereby authorized to prescribe all needful rules and regulations for the enforcement of the Federal Firearms Act (Title 15 U.S.C., Chapter 18), Chapter 44, Title 18, United States Code, and Title VII of the Omnibus Crime Control and Safe Streets Act of 1968 (Title 18 U.S.C., Appendix), as amended, subject to approval by the Secretary or his delegate.

JOSEPH W. BARR,
Acting Secretary of the Treasury.

No. 150–68, JANUARY 17, 1969.—DESIGNATION OF DEPUTY COMMISSIONER TO SERVE AS ACTING COMMISSIONER, INTERNAL REVENUE SERVICE

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, Deputy Commissioner of Internal Revenue William H. Smith is designated, effective 12:01 a.m., January 21, 1969, to serve as Acting Commissioner of Internal Revenue, with authority to perform all functions, without limitation, now authorized to be performed by the Commissioner of Internal Revenue. Mr. Smith will continue to serve in this capacity until a new Commissioner of Internal Revenue has been appointed and assumes the duties of the office.

JOSEPH W. BARR,
Secretary of the Treasury.

No. 150–69, MARCH 14, 1969.—DELEGATION TO COMMISSIONER OF INTERNAL REVENUE OF FUNCTIONS RELATING TO DELINQUENT INTERNAL REVENUE OFFICERS AND EMPLOYEES

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, there are transferred to the Commissioner of Internal Revenue the functions of the Secretary of the Treasury under subsection 7803 (d) of the Internal Revenue Code of 1954, relating to any officer or employee of the Treasury Department arising in connection with the Internal Revenue laws who fails to account for and pay over any amounts of money or property collected or received by him in connection with the revenue laws.

The functions transferred to the Commissioner of Internal Revenue may be exercised by any officer or employee of the Internal Revenue Service who is so authorized by the Commissioner, under such rules as may be prescribed by him.

DAVID M. KENNEDY,
Secretary of the Treasury.

No. 150–70, MARCH 20, 1969.—DELEGATION OF AUTHORITY TO PERFORM FUNCTIONS UNDER THE INTEREST EQUALIZATION TAX ACT

The purpose of this order is to formalize the authority of the Commissioner of Internal Revenue with respect to the administration of the interest equalization tax.

The authority conferred upon the Secretary of the Treasury in the Interest Equalization Tax Act (P.L. 88–563), approved September 2, 1964 (and any extension or amendment thereof) relating to the interest equalization tax, other than the final approval of proposed regulations, is hereby delegated to the Commissioner of Internal Revenue, with the right to redelegate such authority to any officer or employee of the Internal Revenue Service.

To the extent that any action heretofore taken by the Commissioner of Internal Revenue or his delegate consistent with the delegation set forth in the preceding paragraph may require ratification, such action is hereby affirmed and ratified.

DAVID M. KENNEDY,
Secretary of the Treasury.

No. 160, REVISION OF JULY 16, 1968.—DELEGATION OF AUTHORITY AND PROCEDURES PERTAINING TO THE SAFEGUARDING OF OFFICIAL INFORMATION

PART I: SAFEGUARDING OFFICIAL INFORMATION IN THE INTERESTS OF THE DEFENSE OF THE UNITED STATES

1. *Purpose.* The purpose of Part I of this Order is to make delegations of authority and provide implementing instructions for the administration within the Treasury Department of Executive Order No. 10501, of November 5, 1953, as amended, entitled "Safeguarding Official Information in the Interests of the Defense of the United States." The amendments to Executive Order No. 10501 are Executive Order No. 10816, dated May 7, 1959; Executive Order No. 10901, dated January 9, 1961; Executive Order No. 10964, dated September 20, 1961; and Executive Order No. 10985, dated January 12, 1962. The delegations herein are made pursuant to Reorganization Plan No. 26 of 1950 (5 U.S.C., App.).

2. *Applicability of Executive Order No. 10501.*

(a) Heads of bureaus shall be responsible for compliance with the provisions of Executive Order No. 10501, as amended, within their bureaus.

(b) All employees in the Treasury Department are subject to the provisions of Executive Order No. 10501, as amended.

(c) All employees whose duties involve the handling of classified defense information shall familiarize themselves with this Order and the provisions of Executive Order No. 10501, as amended.

(d) All officials and employees of the Federal Reserve Banks who are designated under Section 8(b) shall be governed by Executive Order No. 10501, as amended, in operations under this Treasury Order.

3. *Classification Categories.* Classification of official information requiring protection in the interests of national defense shall be limited to one of three authorized categories of classification, which, in descending order of importance are: *Top Secret, Secret,* and *Confidential.* Except as expressly provided by statute, these designations shall be limited to the classification of material prescribed by the definitions in Section I of Executive Order No. 10501, as amended, and no other designation shall be used for the classification of such material.

4. *Authority To Classify.*

(a) The authority for original classification of information or material as *Top Secret* shall be exercised only by the Secretary, the Under Secretary, the Under Secretary for Monetary Affairs, the General Counsel, the Assistant Secretaries (including the Fiscal Assistant Secretary and the Assistant Secretary for Administration), the Deputy Under Secretary for Monetary Affairs, the Special Assistants to the Secretary, the Director of the Executive Secretariat, the Director of the Office of Law Enforcement Coordination and the Director of the Office of Security.

(b) The authority for original classifications of official information or material as *Secret* and *Confidential* shall be exercised only by those officials specified in subsection (a) of this section, by the heads of bureaus and offices who report directly to the officials specified in subsection (a) of this section, and by those specifically designated for this purpose by the foregoing heads of bureaus and offices. Such designations shall be limited to as few persons as is consistent with the orderly and expeditious transaction of Government business.

5. *Declassification, Downgrading, or Upgrading.*

(a) All information or material of Treasury Department origin classified prior to November 5, 1953 (the effective date of Executive Order No. 10501) is hereby automatically declassified. Defense information or material of Treasury Department origin, prior or subsequent to November 5, 1953, shall be classified only pursuant to an express statutory provision, or when it is positively determined, by an official having authority for original classification under Section 4 of this Order, that such information requires protection in the interest of national defense by classification in one of the three categories, *Top Secret, Secret,* and *Confidential,* as defined in Section I of Executive Order No. 10501, as amended.

(b) All information or material originated by other Government departments or agencies marked "Restricted" or "Restricted-Security Information" or by friendly foreign governments marked "Restricted" shall be temporarily safeguarded as "Confidential", and the Treasury officials named in Section 4 of this Order shall ascertain from the classifying authority involved its disposition as to classification or declassification.

(c) Defense information or material of a classified nature originating from a foreign government or international organization shall be classified in accordance with Section 3(e) of Executive Order No. 10501, as amended. "Restricted Data" and other materials classified in accordance with the provisions of the Atomic Energy Act of 1954, as amended, and information relating to communications intelligence and cryptography shall be classified, handled and safeguarded in accordance with Section 13 of Executive Order No. 10501, as amended.

(d) Officials named in Section 4, subsection (a) of this Order, and heads of bureaus and offices who report to these officials, shall be responsible for establishing a continuing review of classified information or material for the purpose of declassifying or downgrading it, whenever national defense considerations permit, or of classifying or upgrading it pursuant to Section 4(g) of Executive Order No. 10501, as amended, and for receiving requests for such review from all sources. They shall establish formal procedures to provide specific means for prompt review of classified information or material and its declassification or downgrading in order to preserve the effectiveness and integrity of the classification system and to eliminate accumulation of classified material which no longer requires protection in the defense interest. Such procedures shall provide for original classification or declassification upon review in accordance with the categories and procedures of Executive Order No. 10501, as amended, and the special rules with respect to changes of classification of defense information or materials as set forth in Section 4 of Executive Order No. 10501, as amended. Heads of bureaus and offices having authority for original classification shall establish schedules for review of information or material heretofore classified, for purposes of providing for automatic downgrading of such information or material, when appropriate, on a document-by-document, category, project, program, or other systematic basis, and shall provide a copy of such schedules to the Director, Office of Security, Treasury Department.

(e) In the interests of uniformity and in compliance with the automatic declassification provisions of Executive Order No. 10501, as amended, it shall be the responsibility of the classifying official to make certain that classified defense information or material is marked in a conspicuous place on the front, as close as practicable to the classification notation, with one of the following groups of notations, as appropriate. The wording in parenthesis is explanatory and is not to be included in the marking.

(1) *Group 1:* Excluded from automatic downgrading or declassification.

(2) *Group 2:* Exempted from automatic downgrading and declassification by
-------------------------------------. (The record copy shall be signed by the
(Signature) (Date)
classifying official. Other copies shall show his facsimile or printed name.)

(3) *Group 3:* Downgraded at 12 year intervals. Not automatically declassified.

(4) *Group 4:* Downgraded at 3-year intervals. Declassified after 12 years.

(f) If classified information or material can be downgraded or declassified at an earlier date than the interval date shown in the group marking, the classifying official shall specify the earlier date which controls by making an appropriate notation in or near the group marking.

6. *Loss or Subjection to Compromise.* Any employee of the Treasury Department who has knowledge of the loss or possible subjection to compromise of classified defense information or material shall promptly report the circumstances to the appropriate bureau head or his designee, who shall take appropriate action forthwith, including advice to the originating department or agency.

7. *Accountability and Dissemination.* Each bureau head shall prescribe such accountability procedures as are necessary to control effectively the dissemination of classified defense information or material within his own bureau and shall designate Top Secret Control Officers, as required, to receive, maintain accountability registers of, and dispatch Top Secret material.

8. *Access.*

(a) Knowledge or possession of classified defense information or material shall be permitted only to employees whose official duties require access on

a-need-to-know basis to such information or material and then only after a proper security clearance has been granted prior to having access to information or material classified *Confidential*, *Secret*, or *Top Secret*. Employees who occupy critical-sensitive positions must have a valid security clearance issued by the Office of the Director of Security under the provisions of Executive Order No. 10450, as amended, and Treasury Department Order No. 82, Revised. Prior to having access to information or material classified *Confidential* or *Secret*, employees who occupy non-critical sensitive positions must have a valid security clearance issued by the bureau head or his designee under the provisions of the above-mentioned orders.

(b) Officials and employees of Federal Reserve banks, which are authorized to serve as fiscal agents of the United States and perform functions related to the issue and redemption of U.S. securities, may be granted access to classified defense information by the Under Secretary for Monetary Affairs, or his designee, when (a) the information was classified by a Treasury official under Section 4 of this Order, or consent for dissemination to the Federal Reserve Bank was obtained from the classifying agency, under Section 7(c) of Executive Order No. 10501, as amended; (b) the Federal Reserve Bank officials or employees need to have knowledge of such information in connection with activities approved by the Under Secretary for Monetary Affairs, or his designee, as being in the interests of the United States; and (c) the Federal Reserve Bank officials and employees were cleared individually by the Director, Office of Security, Treasury Department under the procedures and standards applicable to officials and employees of the Treasury Department.

9. *Transmission.* Transmission between bureaus and to officials outside the Treasury Department shall be made in accordance with Section 8 of Executive Order No. 10501. Each bureau head shall prescribe regulations governing the preparation of classified defense material for transmission, and the transmission of it, within his bureau, insuring a degree of security equivalent to that outlined in Section 8 of Executive Order No. 10501. Within the main Treasury Building, defense material classified Confidential may be transmitted between offices by hand in a single sealed opaque envelope. No security classification shall be shown on the outside of the envelope.

10. *Receipts.* U.S. Treasury Department Form 2747, Receipt for Classified Material, shall be used in the transmission of all Top Secret and Secret information or material when transmitted outside the organizational control of the sender. It may be used for the transmission control of any other information or material at the discretion of the sender. Receipts for Top Secret information or material may be (at the discretion of the holder) destroyed after 5 years. Receipts for Secret, Confidential or administratively controlled information or material may be destroyed after 3 years.

11. *Destruction.* When information or material, classified under the authority of Executive Order No. 10501, as amended, is to be destroyed, destruction shall be by burning, mulching or shredding in the presence of a person or persons specifically designated by the appropriate bureau head. Prior to a bureau's obtaining a mulching or shredding machine, the Director, Office of Security, Treasury Department, shall approve use of such a machine. Any classified information or material to be destroyed by burning shall be torn and placed in containers designated as burnbags and shall be clearly and distinctly labeled "Burn." Each bureau head shall cause appropriate accountability records to be maintained for his bureau to reflect the destruction of classified defense information or material. Carbon paper used in the preparation of classified defense information or material, extra copies, rough drafts, shorthand notes and any other nonrecord material shall also be destroyed by burning, mulching or shredding, but no records of such destruction need be kept.

12. *Combinations on Locks of Safekeeping Equipment.* Combinations on locks of safekeeping equipment shall be changed, only by persons having appropriate security clearances, whenever such equipment is placed in use after procurement from the manufacturer or other sources, whenever a person knowing the combination is transferred from the office to which the equipment is assigned, or whenever the combination has been subjected to compromise, and at least once every year. The date of the combination change shall be posted on the inside of the safekeeping equipment concerned. Knowledge of the combination shall be limited to the minimum number of persons necessary for operating purposes. Records of combinations shall be classified no lower than the highest category

of classified defense information or material authorized for storage in the safekeeping equipment concerned. These records shall be stored in a central repository designated by the bureau security officer or, in case of offices in the Office of the Secretary, in the Office of Security.

13. *Training, Orientation and Inspection.* The Director, Office of Security, Treasury Department, shall establish and coordinate training and inspection programs to assure that the provisions of Executive Order No. 10501, as amended, are administered effectively throughout the Department. He shall also make any inspection which, in his judgment, is necessary to ascertain facts or facilitate the administration of the Executive Order or this Order. Each bureau head shall designate a person or persons to coordinate and supervise the activities applicable to his bureau under this Order and the Executive Order to maintain the programs of training and inspection established by the Director, Office of Security, and to carry out related activities of Section 10 of Executive Order No. 10501, as amended.

14. *Review.* Each bureau head shall designate a member or members of his staff to conduct a continuing review of the implementation of Executive Order No. 10501, as amended, within his bureau, for the purpose specified in Section 18 of that Executive Order. The Director, Office of Security, shall coordinate bureau reviews and he is authorized to determine what periodic or special reports may be required.

15. *Bureau Delegation Orders and Other Regulations.* Copies of delegation orders and all other rules, regulations and procedures of general applicability issued by the heads of bureaus shall be forwarded to the Director, Office of Security, Treasury Department. Bureaus shall also furnish to him the names and titles of persons designated pursuant to Sections 13 and 14 of this Order.

PART II: SAFEGUARDING NONDEFENSE OFFICIAL INFORMATION REQUIRING CONFIDENTIAL HANDLING

1. *Purpose.* The purpose of Part II of this Order is to provide authority for the administrative classification of certain nondefense official information which requires confidential handling and which is not subject to classification safeguards or dissemination restrictions imposed by law or by Executive Order No. 10501. Classification under this Part represents an initial determination that the information is exempt from disclosures under 5 U.S.C. 552(b). If a request for information classified under this Part is received under 5 U.S.C. 552(a), a determination must be made pursuant to 31 CFR 1.4(b), or under the appropriate regulations of the bureau concerned, as to whether the record should be made available under 5 U.S.C. 552.

2. *Classification Categories.* Nondefense official information which is not entitled to protection under Executive Order No. 10501, as amended, but requires confidential handling shall be classified administratively and marked accordingly, in compliance with the following classes and guides:

(a) *Limited Official Use.* To be used for nondefense documents or material of an important, delicate or sensitive nature which should be treated confidentially and restricted to the officials and their immediate subordinates who have a need to know such information. Documents or materials so marked shall be handled and transmitted in a manner equivalent to "Confidential" in Part I of this Order.

(b) *Official Use Only.* To be used for nondefense documents or materials which should be safeguarded, but to a lesser degree than "Limited Official Use", and which have wider distribution than "Limited Official Use". Documents or materials so marked shall be restricted to official use and handled and transmitted in a manner which will not make them available to unauthorized persons.

3. *Authority to Classify.* Authority to administratively classify nondefense information or material "Limited Official Use" shall be exercised only by persons covered in Part I, Sections 4(a) and 4(b) of this Order. Authority to administratively classify information or material "Official Use Only" shall be exercised only by those persons set forth in Part I, Sections 4(a) and 4(b), of this Order and other persons to whom they delegate such authority. Delegations of authority to classify "Official Use Only" may include authority to redelgate; however, the redelegated authority shall be limited to as few persons as is consistent with the orderly and expeditious transaction of Government business.

4. *Existing Categories.* Any bureau which already has in use its own classification categories for nondefense official information or material may continue to use such classifications if the bureau head finds that its present system will serve its purposes better than the classification categories in Part II of this Order. Each bureau electing to continue its present system shall furnish the Executive Secretariat and the Director, Office of Security, definitions of its classification categories, including the degree of safeguarding for each category. In addition, each such bureau shall assure that the definitions of its classification categories are known to those persons, if any, outside the bureau who are or shall become authorized recipients of the bureaus' classified nondefense information or material.

EFFECTIVE DATE

1. This Order shall become effective upon issuance.

HENRY H. FOWLER,
Secretary of the Treasury.

No. 165–21, JANUARY 24, 1969.—DELEGATION TO THE COMMISSIONER OF CUSTOMS OF CERTAIN FUNCTIONS UNDER THE CUSTOMS CONVENTION

By virtue of authority vested in the Secretary of the Treasury by Executive Order No. 11450 dated January 18, 1969 (34 F.R. 919), and pursuant to authorization given to me by Treasury Department Order No. 190, Rev. 5 (33 F.R. 5811), the Commissioner of Customs is hereby designated to take all necessary action required of the United States under section 1 of Article 5 of the Customs Convention on the international transport of goods under cover of TIR carnets (TIR Convention) to which the United States Senate gave its consent on March 1, 1967, and shall exercise his authority hereunder subject to the conditions set forth in section 2 of said Article 5.

MATTHEW J. MARKS,
Acting Assistant Secretary of the Treasury.

No. 165–21, REVISION No. 1, FEBRUARY 17, 1969.—DELEGATION TO THE COMMISSIONER OF CUSTOMS OF CERTAIN FUNCTIONS UNDER THE CUSTOMS CONVENTION

(1) By virtue of authority vested in the Secretary of the Treasury by Executive Order No. 11450 dated January 18, 1969 (34 F.R. 919), and pursuant to authorization provided by Treasury Department Order No. 190, Rev. 5 (33 F.R. 5811), the Commissioner of Customs is hereby designated to take all necessary action required of the United States under section 1 of Article 5 of the Customs Convention on the international transport of goods under cover of TIR carnets (TIR Convention) to which the United States Senate gave its consent on March 1, 1967, and shall exercise his authority hereunder subject to the conditions set forth in section 2 of said Article 5.

(2) Treasury Department Order No. 165–21, differing in text but not in substance, is hereby rescinded.

MATTHEW J. MARKS,
Acting Assistant Secretary of the Treasury.

No. 165–22, FEBRUARY 26, 1969.—RATES FIXED FOR REIMBURSABLE SERVICES OF CUSTOMS OFFICERS AND EMPLOYEES IN THE VIRGIN ISLANDS

Under authority vested in the Secretary of the Treasury by section 36 of the Act of June 22, 1936, 49 Stat. 1816 (48 U.S.C. 1406i), to fix the compensation of officers and employees appointed for the administration of the customs laws in the Virgin Islands of the United States and pursuant to authorization provided by Treasury Department Order No. 190, Revisions 5 (33 F.R. 5811), it is hereby ordered that:

1. The rates of extra compensation fixed under section 5 of the Act of February 13, 1911, 36 Stat. 901, as amended (19 U.S.C. 267), for services for which extra compensation would be payable under the Act or under section 451 of the Tariff Act of 1930, as amended (19 U.S.C. 1451), and the regulations thereunder for services performed in connection with the administration of the customs laws of the United States shall apply to customs officers and employees appointed for

the administration of the customs laws in the Virgin Islands of the United States.

2. Payment to customs officers and employees in the Virgin Islands for extra compensation shall be made from the Virgin Islands Trust Fund. Collections from parties in interest for extra compensation will be made by the Government of the Virgin Islands under authority of its local laws.

3. The application of the rates fixed under 19 U.S.C. 267 to the Virgin Islands customs officers and employees will be subject to the regulations, decisions, directions for assignment and control of personnel, and the accounting procedures that are applicable to customs officers other than those in the Virgin Islands.

4. This order shall become effective on April 6, 1969, and shall apply to reimbursable services performed on and after that date.

Notices that the action taken by this Order was proposed were published in the Federal Register of July 20, 1967 (32 F.R. 10670), and December 31, 1968 (33 F.R. 20056).

MATTHEW J. MARKS,
Acting Assistant Secretary of the Treasury.

No. 177–22, REVISION No. 2, DECEMBER 27, 1969.—DELEGATION OF AUTHORITY TO SETTLE CLAIMS UNDER THE PERSONNEL AND CIVILIAN EMPLOYEES' CLAIMS ACT OF 1964

By virtue of the authority vested in me by Reorganization Plan No. 26 of 1950, there is hereby delegated to the head of each bureau, office, service, and division, the authority under the Military Personnel and Civilian Employees' Claims Act of 1964, as amended, to settle and pay claims made by a civilian officer or employee of the Treasury Department, for damage to or loss of personal property incident to his service.

The authority herein delegated to the head of each bureau, office, service, and division, may be redelegated by him to any subordinate officer or employee. The determinations made by the head of a bureau or his designee shall be final and conclusive.

The payment of claims pursuant to this delegation shall be in accordance with regulations issued by the Assistant Secretary for Administration.

JOSEPH W. BARR,
Secretary of the Treasury.

No. 183, REVISION No. 4 (SUPPLEMENT 1), JANUARY 22, 1969.—INTERIM AUTHORITY AND PROCEDURES

Pending the appointment and confirmation of the Under Secretary or the Under Secretary for Monetary Affairs or the General Counsel, Assistant Secretary Petty shall act as Secretary of the Treasury in the absence or sickness of the Secretary of the Treasury.

DAVID M. KENNEDY,
Secretary of the Treasury.

No. 189, REVISED, MAY 5, 1969.—DESIGNATION OF DIRECTOR OF EQUAL EMPLOYMENT OPPORTUNITY AND PRINCIPAL COMPLIANCE OFFICER

I hereby designate the General Counsel of the Department as Treasury's Director of Equal Employment Opportunity and Principal Compliance Officer. The General Counsel is delegated full authority to act for me on equal employment opportunity matters with respect to both Treasury and contractor personnel. This includes determining the organization and staffing requirements for meeting our equal employment opportunity objectives, selection and designation of personnel to perform such functions as are necessary, and issuing necessary instructions.

This Order supersedes earlier instructions and order on this subject including Order 189 and all circulars, including Administrative Circular 13, Revised, previously issued with reference to equal employment opportunity.

DAVID M. KENNEDY,
Secretary of the Treasury.

No. 190, Revision No. 6, April 1, 1969.—Supervision of Bureaus and Performance of Functions in the Treasury Department

1. The following officials shall be under the direct supervision of the Secretary:

The Under Secretary
The Under Secretary for Monetary Affairs
The Assistant to the Secretary
Director, Executive Secretariat

2. The following officials shall be under the direct supervision of the Under Secretary:

Assistant to the Under Secretary
Special Assistant to the Secretary (National Security Affairs)
Special Assistant to the Secretary (Public Affairs)
Special Assistant to the Secretary (Congressional Relations)
Internal Revenue Service
Comptroller of the Currency

3. The following officials shall be under the direct supervision of the Under Secretary and shall exercise supervision over those offices, bureaus, and other organizational units indicated thereunder:

A. *General Counsel*
Legal Division
Office of Director of Practice
Office of Employment Policy Program

B. *Assistant Secretary (Tax Policy)*
Office of Tax Legislative Counsel
Office of Tax Analysis

C. *Assistant Secretary (Enforcement and Operations)*
Special Assistant to the Secretary (for Enforcement)
United States Secret Service
Bureau of Customs
Bureau of Engraving and Printing
Bureau of the Mint

D. *Assistant Secretary for Administration*
Office of Administrative Services
Office of Budget and Finance
Office of Management and Organization
Office of Personnel
Office of Planning and Program Evaluation
Office of Security

4. The following officials will be under the direct supervision of the Under Secretary for Monetary Affairs:

Deputy Under Secretary for Monetary Affairs
Special Assistant to the Secretary (Debt Management)

5. The following officials shall be under the direct supervision of the Under Secretary for Monetary Affairs and shall exercise supervision over those offices, bureaus, and other organizational units indicated thereunder:

A. *Assistant Secretary (International Affairs)*
Office of Administration
Office of Latin America
Office of Developing Nations
Office of International Gold and Foreign Exchange Operations
Office of Balance of Payments Programs, Operations and Statistics
Office of Financial Policy Coordination and Operations
Office of Industrial Nations
Office of International Economic Affairs
Office of Foreign Assets Control

B. *Assistant Secretary (Economic Policy)*
Office of Financial Analysis
Office of Domestic Gold and Silver Operations
Office of Debt Analysis

C. *Fiscal Assistant Secretary*
Bureau of Accounts
Bureau of the Public Debt
Office of the Treasurer of the United States

D. *United States Savings Bonds Division*

6. The Under Secretary, the Under Secretary for Monetary Affairs, the General Counsel, and the Assistant Secretaries are authorized to perform any functions

the Secretary is authorized to perform. Each of these officials shall perform functions under this authority in his own capacity and under his own title, and shall be responsible for referring to the Secretary any matter on which actions should appropriately be taken by the Secretary. Each of these officials will ordinarily perform under this authority only functions which arise out of, relate to, or concern the activities or functions of or the laws administered by or relating to the bureaus, offices, or other organizational units over which he has supervision. Any action heretofore taken by any of these officials in his own capacity and under his own title is hereby affirmed and ratified as the action of the Secretary.

7. The following officers shall, in the order of succession indicated, act as Secretary of the Treasury in case of the death, resignation, absence, or sickness of the Secretary and other officers succeeding him, until a successor is appointed or until the absence or sickness shall cease:

A. Under Secretary
B. Under Secretary for Monetary Affairs
C. General Counsel
D. Presidentially appointed Assistant Secretaries in the order in which they took the oath of office as Assistant Secretary.

8. Treasury Department Order No. 190 (Revision 5) is rescinded, effective this date.

David M. Kennedy,
Secretary of the Treasury.

No. 209, Revised, February 6, 1969.—Treasury Utilization of the Department of Defense Industrial Security Program

To provide for the Treasury Department, when acting as a "contracting agency" to participate as a user agency in the Department of Defense Industrial Security Program. This program and the regulations thereof have been developed pursuant to Executive Order 10865, as amended, to protect (1) release of classified information to or within United States industry that relate to bidding on, or the negotiation, award, performance, or termination of, contracts and (2) other releases of classified information to or within industry by Government Agencies who have responsibility for the safeguarding of such classified information.

Section 1. *Definitions*

The following terms, as used herein, shall have the meanings specified:

A. "Department" means the Department of the Treasury.

B. "Secretary" means the Secretary of the Treasury.

C. "Head of the Bureau" means the Head of the Bureau, Independent Office, or Division of a Department, from which the case emanates.

Section 2. *Program Objective*

The security of the United States depends in part upon the proper safeguarding of classified information released to industry. The objective of the Industrial Security Program is to assure the safeguarding of classified information in the hands of United States Industry. The objective of the Department of Defense Industrial Security Regulations is to set forth the industrial security program, policies, practices, and procedures used internally by the Department of Defense to insure maximum uniformity and effectiveness in its application throughout industry.

Section 3. *Agreement*

An agreement between the Department of Defense and the Department of the Treasury was executed on 26 May 1965 which provides for inclusion of the Treasury Department as a "user agency" in the program.

Section 4. *Program Outline, Authority, Scope*

A. The Deputy Director of Contract Administration Services, Defense Supply Agency (DSA), under the policy guidance of the Assistant Secretary of Defense (Manpower), developed and promulgated the Department of Defense Industrial Security Regulations (DOD 5520.22R) pursuant to the National Security Act of 1947. This regulation is applicable to the Office of the Secretary of Defense,

the Departments of the Army, Navy, Air Force, Treasury, and others, hereinafter referred to as "User Agencies" in all industrial security relationships with U.S. Industry. The regulation implements the security policies established by the Assistant Secretary of Defense (Manpower) and establishes the procedures, requirements, and practices concerned with the effective protection of classified information in the hands of U.S. Industry, including foreign classified information which the U.S. Government is obliged to protect in the interest of National defense. User Agencies are not authorized to require a different standard of industrial security than prescribed in the regulations except as specifically provided for therein in exceptional cases.

B. The Secretary of Defense is authorized to act in behalf of User Agencies, in rendering industrial security services. This authority is contained in exchanges of letters between participating agencies and, for the Treasury Department, through execution of the Agreement of 21 April 1965. The Defense Supply Agency (DSA) will perform all cognizant security office functions prescribed by the regulations in behalf of all User Agencies. User Agencies will perform the functions of, and will have the authority and responsibility, prescribed by the regulation and in the Industrial Security Manual, of a contracting officer, except when the administrative contracting officer's functions are delegated or assigned to the Defense Supply Agency.

Section 5. *Procedure—Liaison*

A. The procedures for "User Agencies" are set forth in the publications described in SECTION 6 and provide for use of the system at the contracting officer level through utilization of the services of the appropriate Regional Defense Contract Administration Services Office. Publications shall be procured through normal sources.

B. The Director, Office of Security, is designated as Liaison Officer for this program as it applies to the Treasury Department and the latter will act upon request in any dealing involving the central office of the Defense Supply Agency.

Section 6. *Publications*

A. The following publications are essential and required documentation for the implementation of this program:

1. Department of Defense Industrial Security Regulation, DOD 5220.22–R.
2. Department of Defense Industrial Security Manual for Safeguarding Classified Information, DOD 5220.22–M.

A. E. Weatherbee,
Assistant Secretary for Administration.

No. 214, January 15, 1969.—Delegation of Authority to Waive Claims of Erroneous Payments to Employees

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and by virtue of the authority vested in me as Assistant Secretary for Administration by Treasury Department Order No. 190, Revision 5, there is hereby delegated to heads of bureaus and offices in the Department the authority of the Secretary of the Treasury, under Public Law 90–616, October 21, 1968, 80 Stat. 495, and the regulations of the Comptroller General in 4 CFR Part 201, 33 F.R. 20001, December 31, 1968, as corrected, 34 F.R. 303, January 9, 1969, to waive in whole or in part erroneous payments of pay to Treasury employees aggregating not more than $500.00, in conformity with the limitations and standards set forth in the aforesaid act and regulations.

This authority may be delegated by the head of the bureau or office only to a deputy or assistant head of that bureau or office.

A. E. Weatherbee,
Assistant Secretary for Administration.

No. 214, Revision No. 1, April 17, 1969.—Delegation of Authority To Waive Claims for Erroneous Payments to Employees

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and by virtue of the author-

ity vested in me as Assistant Secretary for Administration by Treasury Department Order No. 190, Revision 6, there is hereby delegated to heads of bureaus and offices in the Department the authority of the Secretary of the Treasury, under Public Law 90–616, October 21, 1968, 82 Stat. 1212, and the regulations of the Comptroller General in 4 CFR Part 201, 33 F.R. 20001, December 31, 1968, as corrected, 34 F.R. 303, January 9, 1969, to waive in whole or in part erroneous payments of pay to Treasury employees aggregating not more than $500, in conformity with the limitations and standards set forth in the aforesaid act and regulations.

This authority may be delegated by the head of the Bureau or office only to a deputy or assistant head of that bureau or office except that the Commissioner of Internal Revenue and the Commissioner of Customs may delegate this authority to regional commissioners.

Treasury Department Order No. 214 is rescinded.

A. E. Weatherbee,
Assistant Secretary for Administration.

No. 215, May 13, 1969.—Establishment of Advisory Committee on Ethical Standards

By virtue of the authority vested in the Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, and under the authority vested in me by Treasury Order No. 190, Revision 6, I hereby establish in the Office of the Secretary an Advisory Committee on Ethical Standards.

The Committee shall be composed of the General Counsel, who shall serve as Chairman, the Fiscal Assistant Secretary, and the Director of the Office of Personnel. The deputy of any member may serve in the absence of his principal.

The Committee shall consider and advise upon the questions of conflict of interest and the matters of ethical judgment which may be stated for its consideration in the Standards of Conduct of the Treasury Department, 31 CFR Part O, Treasury Personnel Manual, Chapter 735. Until those standards are revised, the Committee shall perform those functions now specified therein for the Ad Hoc Committee on Ethical Standards.

Treasury Department Order No. 188 (Revised) establishing the Ad Hoc Advisory Committee on Ethical Standards is hereby revoked.

Charls E. Walker,
Under Secretary of the Treasury.

Advisory Committees

Exhibit 66.—Advisory committees utilized by the Department of the Treasury under Executive Order 11007

During the fiscal year 1969 the advisory committees listed below were continued in use or newly established after a finding of public interest by the Secretary of the Treasury, in accordance with the requirements of Executive Order 11007, dated February 26, 1962. The information concerning the committees is published in the annual report in compliance with section 10 of the order.

Office of the Secretary

ADVISORY COMMITTEE ON CUSTOMS ADMINISTRATION

This Committee was established October 20, 1966, with the approval of Secretary Fowler to enable the Treasury Department to maintain a regularly established mechanism of consultation with representatives of commercial and other private interests principally concerned with the administration of the customs laws and regulations. The Committee was intended to provide a forum for new ideas on simplification and streamlining of customs procedures.

The Committee held no meetings in fiscal 1969, and the duration of the Committee expired during fiscal 1969.

A list of the members of the Committee may be found in the Annual Report for 1968, pages 485 and 486.

REGIONAL AND DISTRICT ADVISORY COMMITTEES ON CUSTOMS ADMINISTRATION

The Secretary of the Treasury authorized the establishment, as of June 16, 1967, of three Regional Advisory Committees on Customs Administration, and 28 District Advisory Committees on Customs Administration. The Committees were established as part of a continuing effort to improve Government operations and communications with the public and business community on Customs matters.

Three of the Committees met informally during the year. The members of the Committees and the dates of their meetings during fiscal 1969 follow. The period of operation of the Committees was 2 years, and expired on June 16, 1969.

Region II (New York) meeting date: March 14, 1969.

Michael Stramiello (Chairman)	Regional Commissioner of Customs, New York, N.Y.
David F. Cardoza	Deputy Regional Commissioner of Customs, New York, N.Y.
Frank Hult	National Customs Brokers & Forwarders Association of America, Inc., New York, N.Y.
Caesar B. Patterini	General Manager, Port Authority, J.F.K. International Airport, New York, N.Y.
Alexander P. Chopin	Chairman, New York Shipping Association, New York, N.Y.
Thomas E. Honey	Association of the Customs Bar, New York, N.Y.
Al Shea	Kennedy Airport Management Council, New York, N.Y.
Thomas W. Gleason	President, International Longshoremen's Association, New York, N.Y.
Donald T. Cameron	President, New York Foreign Freight Forwarders and Brokers Association, Inc., New York, N.Y.
Anthony J. Tozzoli	Manager, Marine Planning and Construction Division, The Port of New York Authority, New York, N.Y.

Philadelphia, Pa., District held a meeting on August 15, 1968.

Edward J. Henry (Chairman)	District Director of Customs, Philadelphia, Pa.
C. Everett Langhans	Assistant District Director (Inspection & Control), Philadelphia, Pa.
William J. Lawrence	Program Assistant, U.S. Customs, Philadelphia, Pa.
John Cook	Cargo Sales Officer, British Overseas Airway Corporation, Philadelphia, Pa.
James Kelly	Deputy Director, Port Development, Delaware River Port Authority, Philadelphia, Pa.
William Keogh	Manager, Port Department, Lavino Shipping Company, Philadelphia, Pa.
Francis Muldoon	President, J. A. McCarthy Steamship Company; President, Philadelphia Marine Trade Association, Philadelphia, Pa.
Carson Simon	President, Freight Brokers, Forwarders & Customs Brokers Association, Philadelphia, Pa.
Thomas J. Farrell	President, National Customs Service Association, Philadelphia Branch, Philadelphia, Pa.

Mobile, Ala., District held a meeting on September 5, 1968.

Clarence C. Howard (Chairman)	District Director of Customs, Mobile, Ala.
James T. Lee	Vice President, Page & Jones, Inc., Mobile, Ala.
R. S. Price	President, Mobile Steamship Association, c/o Dalton Steamship Corporation, Mobile, Ala.
John L. Godwin	President, Forwarding Agents and Foreign Freight Brokers Association of Mobile, c/o Godwin Shipping Company, Mobile, Ala.
D. M. Hargett	Vice President, DeVan Inspection Company, Inc., Mobile, Ala.

W. A. Stein	District Traffic Manager, Aluminum Company of America, Mobile, Ala.
Harvey L. Perry	President, National Customs Service Association, Mobile Branch, Mobile, Ala.
C. D. Haig, Jr.	General Traffic Manager, Alabama State Docks Department, Mobile, Ala.
John P. McKay	District Manager, Gordens Transport, Inc., Mobile, Ala.
B. L. Skinner	Assistant Freight Traffic Manager, Southern Railway System, Mobile, Ala.

ADVISORY COMMITTEE ON INTERNATIONAL MONETARY ARRANGEMENTS

The purpose of the Advisory Committee on International Monetary Arrangements was to provide to the Treasury Department advice and recommendations with respect to the development of means of assuring an adequate supply of world liquidity through international monetary arrangements. The Committee consisted of persons representing the U.S. segment of the international financial community and of economists specializing in financial and international monetary affairs. The functions of the Committee were solely advisory.

Formation of the Committee was announced on July 3, 1965. The Committee terminated on June 12, 1969. During fiscal 1969, the Committee held 3 meetings with the Secretary of the Treasury and other Government officials on July 2, September 11 and December 4.

Membership of the Committee was as follows:

Douglas Dillon (Chairman)	Former Secretary of the Treasury, New York, N.Y.
Francis M. Bator	Professor of Political Economy, Harvard University, Cambridge, Mass.
Edward M. Bernstein	Economic consultant specializing in international monetary policy, Washington, D.C.
Kermit Gordon	President, Brookings Institution, Washington, D.C.
Walter W. Heller	Professor of Economics, University of Minnesota, Minneapolis, Minn.
Andre Meyer	Senior Partner, Lazard Freres and Co., New York, N.Y.
David Rockefeller	President, Chase Manhattan Bank, New York, N.Y.
Robert V. Roosa	Partner, Brown Bros. Harriman & Co., New York, N.Y.
Frazar B. Wilde	Chairman Emeritus, Connecticut General Life Insurance Co., Hartford, Conn.

DEBT MANAGEMENT COMMITTEES

The Treasury Department, in connection with debt management duties, uses in an advisory capacity the services of a number of committees representing organizations which form a cross section of the American financial community. The committees meet periodically, at the invitation of the Treasury, to discuss and advise upon current and future Federal financings. The Treasury finds discussions with these advisory groups to be of great value, primarily in assessing the general market sentiment prior to a major refinancing of maturing obligations. Their recommendations are carefully considered by Treasury officials and serve as a part of the background environment for the final financing decisions. These committees are as follows:

American Bankers Association, Government Borrowing Committee
Investment Bankers Association of America, Governmental Securities Committee
National Association of Mutual Savings Banks, Committee on Government Securities and the Public Debt
Life Insurance Association of America and American Life Convention, Joint Economic Policy Committee

U.S. Savings and Loan League, National League of Insured Savings Associations, Advisory Committee on Government Securities
Independent Bankers Association, Government Fiscal Policy Committee

Four meetings were held with the Government Borrowing Committee of the American Bankers Association in fiscal year 1969, on July 30–31, October 22–23, January 28–29 and April 29–30.

Membership of the Committee was as follows:

Frederick G. Larkin, Jr. (Chairman)	President, Security Pacific National Bank, Los Angeles, Calif.
William T. Heffelfinger (Secretary)	Federal Administrative Adviser, The American Bankers Association, Washington, D.C.
Henry T. Bodman	Chairman, National Bank of Detroit, Detroit, Mich.
Thomas O. Cooper	President, Jefferson State Bank, Jefferson, Iowa
Robert Y. Empie	President, Stock Yards Bank, Oklahoma City, Okla.
Murray Kyger	Chairman and Chief Executive Officer, First National Bank, Fort Worth, Tex.
William H. Moore	Chairman of Board, Bankers Trust Company, New York, N.Y.
Rudolph A. Peterson	President, Bank of America N.T. & S.A., San Francisco, Calif.
William G. Foulke	President, Provident National Bank, Philadelphia, Pa.
James P. Hickok	Chairman of Board, First National Bank, St. Louis, Mo.
John M. Meyer, Jr.	President, Morgan Guaranty Trust Company, New York, N.Y.
William S. Renchard	Chairman, Chemical Bank New York Trust Company, New York, N.Y.
Emmett G. Solomon	Chairman and Chief Executive Officer, Crocker-Citizens National Bank, San Francisco, Calif.
Mills H. Anderson	President, Bank of Carthage, Carthage, Mo.
George S. Eccles	President, First Security Bank, N.A., Salt Lake City, Utah
David Rockefeller	President and Chairman of Executive Committee, The Chase Manhattan Bank, N.A., New York, N.Y.
Robert V. Roosa	Partner, Brown Brothers Harriman & Co., New York, N.Y.
Robert G. Rouse	Consultant and Director, Hambro American Bank and Trust Company, New York, N.Y.
Kenneth V. Zwiener	Chairman of Board, Harris Trust and Savings Bank, Chicago, Ill.
David M. Kennedy (Resigned prior to Jan. 20, 1969)	Chairman of Board, Continental Illinois National Bank and Trust Company, Chicago, Ill.
Charles J. Gable, Jr.	Senior Vice President, The First Pennsylvania Banking and Trust Company, Philadelphia, Pa.
John J. Larkin	Vice President, First National City Bank, New York, N.Y.
Robert P. Mayo (Resigned prior to Jan. 20, 1969)	Vice President, Continental Illinois National Bank and Trust Company, Chicago, Ill.
Paul I. Wren	President, Old Colony Trust Company, Boston, Mass.
Willis W. Alexander	President, Trenton Trust Company, Trenton, Mo.
Nat S. Rogers	President, Deposit Guaranty National Bank, Jackson, Miss.
J. Howard Laeri	Vice Chairman, First National City Bank, New York, N.Y.

Charls E. Walker (Resigned prior to Jan. 20, 1969)	Executive Vice President and Executive Manager, American Bankers Association, New York, N.Y.
S. J. Kryzsko	President, Winona National and Savings Bank, Winona, Minn.
Donald C. Miller	Senior Vice President, Continental Illinois National Bank and Trust Company, Chicago, Ill.

Four meetings were held with the Governmental Securities Committee of the Investment Bankers Association of America in fiscal year 1969, on July 30–31, October 22–23, January 28–29 and April 29–30.

Membership of the Committee was as follows:

Robert B. Rivel (Chairman)	Senior Vice President, The Chase Manhattan Bank, New York, N.Y.
Daniel Ahearn	Vice President, Wellington Distributors, Inc., Philadelphia, Pa.
Robert H. Bethke	Chairman, Executive Committee, Discount Corporation of New York, New York, N.Y.
Robert B. Blyth	Vice Chairman, National City Bank, Cleveland, Ohio
Carl F. Cooke	Senior Vice President, The First Boston Corporation, New York, N.Y.
G. Lamar Crittenden	Senior Vice President, First National Bank of Boston, Boston, Mass.
Stewart A. Dunn	Vice President, Merrill Lynch, Pierce, Fenner & Smith, Inc., New York, N.Y.
Lester H. Empey	Senior Vice President, Wells Fargo Bank, San Francisco, Calif.
Alfred H. Hauser	Executive Vice President, Chemical Bank New York Trust Company, New York, N.Y.
Alger J. Jacobs	Senior Vice President, Crocker-Citizens National Bank, San Francisco, Calif.
Ralph F. Leach	Executive Vice President and Treasurer, Morgan Guaranty Trust Company, New York, N.Y.
Eugene S. Lee	Executive Vice President, Valley National Bank, Phoenix, Ariz.
Edward D. McGrew	Senior Vice President, The Northern Trust Company, Chicago, Ill.
Edward R. McMillan	Vice President, National Bank of Commerce, Seattle, Wash.
John H. Perkins	Senior Vice President, Continental Illinois National Bank and Trust Company, Chicago, Ill.
William W. Pevear	Senior Vice President, Irving Trust Company, New York, N.Y.
William E. Simon	Partner, Salomon Brothers & Hutzler, New York, N.Y.
Robert W. Stone	Senior Vice President, National Bank of Detroit, Detroit, Mich.
Paul E. Uhl	Senior Vice President, United California Bank, Los Angeles, Calif.
C. Richard Youngdahl	President, Aubrey G. Lanston and Company, Inc., New York, N.Y.
Alan K. Browne	Senior Vice President, Bank of America N.T. & S.A., San Francisco, Calif.
Preston T. Luney	Vice President, Harris Trust and Savings Bank, Chicago, Ill.
H. Jack Runnion, Jr.	Senior Vice President, Wachovia Bank and Trust Company, Winston-Salem, N.C.

One meeting was held with the Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks in fiscal year 1969, on August 7, 1968.

Membership of the Committee was as follows:

John W. Kress (Chairman)	President, The Howard Savings Institution, Newark, N.J.

Hermon J. Arnott	President, The Farmers and Mechanics Savings Bank, Minneapolis, Minn.
Charles F. Brau	President, The Kings County Savings Bank, Brooklyn, N. Y.
George D. DeGrasse	President, Waltham Savings Bank, Waltham, Mass.
G. Churchill Francis	President, The Boston Five Cents Savings Bank, Boston, Mass.
Charles B. Grubb	President, The Poughkeepsie Savings Bank, Poughkeepsie, N.Y.
William H. Harder	President, Buffalo Savings Bank, Buffalo, N.Y.
Robert Horsfield	Executive Vice President, Dry Dock Savings Bank, New York, N.Y.
Howard L. Huxtable	President, Lynn Institution for Savings, Lynn, Mass.
Sheldon L. Ladd	President and Treasurer, The Meriden Savings Bank, Meriden, Conn.
William B. Licklider	President, The United States Savings Bank, Newark, N.J.
Edward F. McGinley, Jr.	President, Beneficial Mutual Savings Bank, Philadelphia, Pa.
Alfred C. Middlebrook	Senior Vice President, East River Savings Bank, New York, N.Y.
Barrett C. Nichols	Executive Vice President and Treasurer, Maine Savings Bank, Portland, Maine
Lester J. Norcross	President, Syracuse Savings Bank, Syracuse, N.Y.
Albert N. Place	President, Woonsocket Institution for Savings, Woonsocket, R.I.
John W. Raber	President, The Green Point Savings Bank, Brooklyn, N.Y.
Norman C. Ramsey	President and Chairman of the Board, Broadway Savings Bank, New York, N.Y.
Howard B. Smith	President, The Middletown Savings Bank, Middletown, Conn.
William H. Smith, 2d	President, Holyoke Savings Bank, Holyoke, Mass.
Leo F. Stanley	President, The New Haven Savings Bank, New Haven, Conn.
Theodore W. Lowen	President, Savings Banks Trust Company, New York, N.Y.
Saul B. Klaman	Vice President and Chief Economist, National Association of Mutual Savings Banks, New York, N.Y.

One meeting was held with the Joint Economic Policy Committee of the Life Insurance Association of America and the American Life Convention in fiscal year 1969, on October 31, 1968.

Membership of the Committee was as follows:

John J. McGovern, Jr. (Chairman)	The Mutual Benefit Life Insurance Co., Newark, N.J.
G. Daniel Brooks	Chairman of the Board, The National Life and Accident Insurance Co., Nashville, Tenn.
George T. Conklin, Jr.	Executive Vice President, The Guardian Life Insurance Co. of America, New York, N.Y.
L. O. Copeland	President, North American Life Insurance Co., Chicago, Ill.
John T. Fey	President, National Life Insurance Company, Montpelier, Vt.
Gilbert W. Fitzhugh	Chairman of the Board, Metropolitan Life Insurance Co., New York, N.Y.
Philip J. Reinertsen	Economic Research Manager, Aetna Life and Casualty Co., Hartford, Conn.
W. Roger Soles	President, Jefferson Standard Life Insurance Co., Greensboro, N.C.

Charles R. Tyson	President, The Penn Mutual Life Insurance Co., Philadelphia, Pa.
Ben F. Small	Executive Vice President, Life Insurance Association of America, New York, N.Y.
Arthur S. Fefferman	Director of Economic Analysis, American Life Convention, Chicago, Ill.
Ralph J. McNair	Vice President, Life Insurance Association of America, Washington, D.C.
Lee Shield	Executive Vice President, American Life Convention, Chicago, Ill.
Kenneth M. Wright	Vice President and Chief Economist, Life Insurance Association of America, New York, N.Y.

One meeting was held with the Advisory Committee on Government Securities of the Savings and Loan Business in fiscal year 1969, on August 8, 1968.

Membership of the Committee was as follows:

C. L. Clements, Sr. (Chairman)	President, Chase Federal Savings & Loan Association, Miami Beach, Fla.
James A. Aliber	President, First Federal Savings & Loan Association, Detroit, Mich.
Junius F. Baxter	President, Western Federal Savings & Loan Association, Denver, Colo.
James E. Bent	Chairman of the Board, Hartford Federal Savings & Loan Association, Hartford, Conn.
Frederick Bjorklund	President, Minnesota Federal Savings & Loan Association, St. Paul, Minn.
Lacy Boggess	President, Mutual Savings & Loan Association, Fort Worth, Tex.
Henry A. Bubb	President and Chairman of the Board, Capitol Federal Savings & Loan Association, Topeka, Kans.
Carl Distelhorst	Winter Park, Fla.
W. O. DuVall	Chairman of the Board, Atlanta Federal Savings & Loan Association, Atlanta, Ga.
Fred F. Enemark	Executive Vice President, Marin County Savings & Loan Association, San Rafael, Calif.
E. Stanley Enlund	President, First Federal Savings & Loan Association, Chicago, Ill.
Jonathan M. Fletcher	President, Home Federal Savings & Loan Association, Des Moines, Iowa
Richard G. Gilbert	President, Citizens Savings Association, Canton, Ohio
L. W. Grant, Sr.	Chairman of the Board, Home Federal Savings & Loan Association, Tulsa, Okla.
George E. Leonard	President and Chairman of the Board, First Federal Savings & Loan Association, Phoenix, Ariz.
Roy M. Marr	Chairman of the Board, Leader Federal Savings & Loan Association, Memphis, Tenn.
George A. Mooney	President, Washington Heights Federal Savings & Loan Association, New York, N.Y.
John W. Stadtler	President, National Permanent Savings & Loan Association, Washington, D.C.
A. D. Theobald	President, First Federal Savings & Loan Association, Peoria, Ill.
Donald A. Thompson	Senior Vice President, California Federal Savings & Loan Association, Los Angeles, Calif.
Gerrit Vander Ende	President and Chairman of the Board, Pacific First Federal Savings & Loan Association, Tacoma, Wash.
James A. Hollensteiner	Secretary, U.S. Savings & Loan League, Chicago, Ill.

Two meetings were held with the Government Fiscal Policy Committee of the Independent Bankers Associations in fiscal year 1969, on December 17, 1968 and June 27, 1969.

Membership of the Committee was as follows:

Milton J. Hayes (Chairman)	Senior Vice President, American National Bank & Trust Co., Chicago, Ill.
William F. Enright, Jr. (Assistant Chairman)	Senior Vice President, The American National Bank, Saint Joseph, Mo.
Reed H. Albig (Appointed March 1969)	President, McKeesport National Bank, McKeesport, Pa.
S. E. Babington	Former President, Brookhaven Bank & Trust Co., Brookhaven, Miss.
O. K. Johnson	Former President, Whitefish Bay State Bank, Milwaukee, Wis.
Glenn H. Larson	Chairman of the Board and President, First State Bank, Thompson Falls, Mont.
Donald R. Ostrand (Appointed March 1969)	Vice President, First National Bank, Omaha, Nebr.
J. C. Reeves	Senior Vice President, National Bank of Commerce, Pine Bluff, Ark.
Raymond K. Smith (Appointed March 1969)	President, First National Bank & Trust Co., Corning, N.Y.
Robert M. Waters (Appointed March 1969)	Chairman of the Board, Security Trust & Savings Bank, Billings, Mont.
Gene Moore	Secretary, Independent Bankers Association, Sauk Centre, Minn.

Committee members whose term expired March 1969:

William W. Marshall, Jr.	President, Commercial National Bank & Trust Co., Grand Island, Nebr.
Marshall Barnes	President, Beaver Dam Deposit Bank, Beaver Dam, Ky.
Kenneth J. Benda	President, Hartwick State Bank, Hartwick, Iowa
Carl M. Floyd	Senior Vice President, Fulton National Bank, Atlanta, Ga.
John A. Jenkins	Chairman of the Board, Pinellas Central Bank & Trust Co., Largo, Fla.

TREASURY LIAISON COMMITTEE OF THE BUSINESS COUNCIL (FORMERLY TREASURY CONSULTATIVE COMMITTEE OF THE BUSINESS COUNCIL)

The Secretary of the Treasury proposed this Committee on May 8, 1965, "to keep up a two-way exchange and dialog on areas of material concern to the Treasury and the business community." The Committee consists of members informally recommended and appointed by the Business Council and the Secretary of the Treasury. The functions of the Committee are advisory and consultative. Formation of the Committee was announced on July 8, 1965.

During fiscal year 1969 the Committee met on September 20, 1968, and May 28, 1969.

Membership of the Committee in fiscal 1969 was as follows:

Thomas S. Gates, Jr. (Chairman)	Chairman, Morgan Guaranty Trust Co., New York, N.Y.
William A. Hewitt	Chairman, Deere & Co., Moline, Ill.
Frank R. Milliken	President, Kennecott Copper Co., New York, N.Y.
Juan T. Trippe	Honorary Chairman, Pan American World Airways, New York, N.Y.
Eugene N. Beesley	President, Eli Lilly & Co., Indianapolis, Ind.
Howard L. Clark	Chariman, American Express Co., New York, N.Y.
Fredric G. Donner	Former Chairman, General Motors Corp., New York, N.Y.
Charles F. Myers, Jr.	Chairman, Burlington Industries, Inc., Greensboro, N.C.

Commissioner of Customs

JOINT CUSTOMS/AIRLINE WORKING GROUP ON AIR CARGO

This Group was established by memorandum dated May 8, 1964, from the Secretary of the Treasury to the Commissioner of Customs. It expired on June 30, 1969.

The functions of the Group were to review industry procedures for handling air cargo and related customs procedures for the assessment and collection of duties and taxes on imported merchandise; to determine if these procedures could be integrated into a system to provide a simplified method of clearance with a minimum of delay and provide adequate controls for customs purposes.

The members of the Group, which met in fiscal year 1969 on September 5, 1968, were as follows:

G. H. Heidbreder (Chairman)	Deputy Director, Division of Inspection and Control, Bureau of Customs, Treasury Department, Washington, D.C.
E. G. Wing	Operations Officer. Bureau of Customs, Treasury Department, Washington, D.C.
Albert J. Francis, Jr.	Assistant Director, Office of Operations, Bureau of Customs, Treasury Department, Washington, D.C.
Edward J. Doyle	Assistant Director, Office of Regulations and Rulings, Bureau of Customs, Treasury Department, Washington, D.C.
John D. Robison	Assistant Director, Office of Operations, Bureau of Customs, Treasury Department, Washington, D.C.
John B. O'Loughlin	Assistant Director, Office of Operations, Bureau of Customs, Treasury Department, Washington, D.C.
J. R. Gorson	Manager-Facilitation, Air Transport Association, Washington, D.C.
S. W. McMillion	Manager-Traffic Agreements and Procedures, United Air Lines, Chicago, Ill.
L. M. Rogers	Director, Traffic Administration, American Airlines, New York, N.Y.
Jay L. Sheppard	Manager-Facilitation, Pan American Airways, New York, N.Y.
F. Johnson	British Overseas Airways Corporation, New York, N.Y.
R. W. Williams	Director, Customs Service, Seaboard World Airlines, Inc., J.F.K. International Airport, Jamaica, N.Y.
E. J. Miller	Manager-Travel Facilitation, Trans World Airlines, New York, N.Y.

Commissioner of Internal Revenue

ART ADVISORY PANEL TO THE COMMISSIONER OF INTERNAL REVENUE

This Panel was established by the Commissioner of Internal Revenue on February 1, 1968.

This Committee, representing the three major segments of the art world—museums, universities, and dealers—provides advice to the Internal Revenue Service on the valuation of works of art for Federal tax purposes.

The Art Panel met on October 31–November 1, 1968, and March 13–14, 1969.

The membership of the Panel in fiscal 1969 follows:

Dr. Richard F. Brown	Director, Kimbell Foundation, Fort Worth, Tex.
Mr. Anthony M. Clark	Director, Minneapolis Institute of Arts, Minneapolis, Minn.
Mr. Charles C. Cunningham	Director, Art Institute of Chicago, Chicago, Ill.
Mr. Louis Goldenberg	Art Dealer, Wildenstein & Co., New York, N.Y.
Dr. Sherman E. Lee	Director, Cleveland Museum of Art, Cleveland, Ohio

Mr. Edward R. Lubin	Art Dealer, E. R. Lubin, Inc., New York, N.Y.
Mr. Allan McNab	Art Consultant, La Pointe, Wis.
Prof. Charles F. Montgomery	University of Delaware, Newark, Del.
Prof. Charles Seymour, Jr.	Yale University, New Haven, Conn.
Mr. Eugene V. Thaw	Art Dealer, E. V. Thaw Co., New York, N.Y.

THE FIREARMS EVALUATION PANEL TO THE COMMISSIONER OF INTERNAL REVENUE

This Panel was established under Executive Order 11007 on November 15, 1968, for the purpose of advising the Director, Alcohol, Tobacco and Firearms Division, IRS, on the development of standards to control the importation of firearms and ammunition in accordance with 18 U.S.C. 925(d)(3) (as amended).

The Firearms Evaluation Panel met on December 10, 1968, and January 17 and 27, 1969.

The membership of the Panel in fiscal 1969 follows:

Mr. Donald Flohr	Firearms Technician, H. P. White Laboratories, Bel Air, Md.
Mr. Harold Johnson	U.S. Army, Foreign Science and Technology Center, Washington, D.C.
Mr. Daniel D. Musgrave	Representative, Mauser Works of West Germany, Cabin John, Md.
Mr. John Richards	Owner, Potomac Arms Company, Alexandria, Va.
Mr. Jepta Rogers	Administrative Assistant, International Association of Chiefs of Police, Washington, D.C.
Lt. Col. Joseph S. Smith (Ret).	Deputy Director, Civilian Marksmanship Program, Department of Defense, Washington, D.C.

Comptroller of the Currency

ADVISORY COMMITTEE FOR INTERNATIONAL BANKING AND FINANCE

This Committee was formed on October 2, 1964, by the Comptroller of the Currency to provide the Comptroller with technical advice and suggestions which are essential to effective supervision of the international financial activities of national banks.

The members of this Committee, which met in fiscal year 1969 on October 3, 1968, were as follows:

Frederick Heldring (Chairman)	Senior Vice President, The Philadelphia National Bank, Philadelphia, Pa.
Alfred F. Miossi (Vice Chairman)	Vice President, Continental Illinois National Bank, Chicago, Ill.
A. Robert Abboud	Vice President, The First National Bank of Chicago, Chicago, Ill.
Luis F. Corea	Senior Vice President, The Riggs National Bank of Washington, Washington, D.C.
G. A. Costanzo	Executive Vice President, First National City Bank, New York, N.Y.
Clarence L. Hulford	Senior Vice President, The National Bank of Commerce of Seattle, Seattle, Wash.
Matthew Murphy	Senior Vice President, Republic National Bank of Dallas, Dallas, Tex.
J. Warren Olmsted	Executive Vice President, The First National Bank of Boston, Boston, Mass.
Herbert P. Patterson	Executive Vice President, Chase Manhattan Bank, N.A., New York, N.Y.
William Walter Phelps, Jr.	Vice President, Mellon National Bank & Trust Company of Pittsburgh, Pittsburgh, Pa.
Roland Pierotti	Executive Vice President, Bank of America, N.T. & S.A., San Francisco, Calif.
Richard L. Thomas	Vice President, The First National Bank of Chicago, Chicago, Ill.
Merlyn N. Trued	Senior Vice President, Central National Bank of Cleveland, Cleveland, Ohio

CONSULTING COMMITTEE OF BANK ECONOMISTS

On November 23, 1965, the Comptroller announced the appointment of a consulting committee of bank economists which included seven national bank economists.

This Committee's function was to advise the Comptroller and his staff and work with the National Advisory Committee. The Committee's primary responsibility was to bring their specialized experience and technical knowledge to bear on current problems of banking policy and practice.

The members of this Committee, which met in the fiscal year 1969 on October 9, 1968, were as follows:

John J. Balles (Chairman)	Vice President & Chief Economist, Mellon National Bank & Trust Co., Pittsburgh, Pa.
William F. Butler	Vice President, Chase Manhattan Bank, N.A., New York, N.Y.
James M. Dawson	Vice President & Economist, The National City Bank of Cleveland, Cleveland, Ohio
Herbert E. Johnson	Vice President & Economist, Continental Illinois National Bank & Trust Co. of Illinois, Chicago, Ill.
Leif H. Olsen	Vice President in Charge of Economics Department, First National City Bank, New York, N.Y.
Eugene C. Zorn, Jr.	Vice President & Economist, Republic National Bank of Dallas, Dallas, Tex.
William J. Korsvik	Vice President, The First National Bank of Chicago, Chicago, Ill.
Walter E. Hoadley	Executive Vice President & Chief Economist, Bank of America, N.T. & S.A., San Francisco, Calif.

INVESTMENT SECURITIES ADVISORY COMMITTEE

In 1962 the Comptroller of the Currency established the Investment Securities Advisory Committee. The purpose of the Committee was to advise the agency on matters pertaining to the regulations concerning investment securities.

Members of the Committee, who met in fiscal year 1969 on October 23, 1968, were as follows:

John H. Perkins (Chairman)	Vice President, Continental National Bank & Trust Company of Chicago, Chicago, Ill.
Alan K. Browne	Vice President, Bank of America, San Francisco, Calif.
Albert W. Gray	Vice President, Northwest Bancorporation, Minneapolis, Minn.
Lewis F. Lyne	Senior Vice President, Mercantile National Bank at Dallas, Dallas, Tex.
Early F. Mitchell	Executive Vice President, First National Bank of Memphis, Memphis, Tenn.
Richard Kezer	Vice President, First National City Bank, New York, N.Y.
Thomas L. Ray	Vice President, Mercantile Trust Company, St. Louis, Mo.
Robert Rivel	Senior Vice President, The Chase Manhattan Bank, New York, N.Y.
Wesley G. Schelke	Vice President, Seattle First National Bank, Seattle, Wash.
Franklin Stockbridge	Vice President, Security First National Bank, Los Angeles, Calif.
James G. Wilson	Vice President, The National Shawmut Bank, Boston, Mass.

NATIONAL ADVISORY COMMITTEE ON BANKING POLICIES AND PRACTICES

On October 4, 1965, the Comptroller of the Currency appointed this Committee, composed of leading bankers. The Committee has participated in a cooperative

effort to bring the thinking of the banking community to bear on the many matters of national concern in which the banking industry is vitally involved. No meetings of this Committee were held in fiscal year 1969. Members of the Committee are as follows:

George S. Moore (Chairman)	Chairman of the Board, First National City Bank, New York, N.Y.
Robert C. Baker	Chairman of the Board and President, American Security & Trust Company, Washington, D.C.
Henry T. Bodman	Chairman of the Board, National Bank of Detroit, Detroit, Mich.
George Champion	Chairman of the Board, The Chase Manhattan Bank, New York, N.Y.
Kenton R. Cravens	Chairman of the Board, Mercantile Trust Company, St. Louis, Mo.
Roger C. Damon	President, The First National Bank of Boston, Boston, Mass.
G. Morris Dorrance, Jr.	Chief Executive Officer, The Philadelphia National Bank, Philadelphia, Pa.
George S. Eccles	President, First Security Bank of Utah, Salt Lake City, Utah.
J. A. Elkins, Jr.	Chairman of the Board, First City National Bank of Houston, Houston, Tex.
John S. Fangboner	Chairman of the Board & Chief Executive Officer, The National Bank of Cleveland, Cleveland, Ohio
Sam M. Fleming	President, Third National Bank in Nashville, Nashville, Tenn.
Robert D. H. Harvey	Vice Chairman of the Board and Chief Executive Officer, Maryland National Bank, Baltimore, Md.
William M. Jenkins	Chairman of the Board, Seattle-First National Bank, Seattle, Wash.
Mills B. Lane, Jr.	President, The Citizens & Southern National Bank, Atlanta, Ga.
Frederick G. Larkin, Jr.	Chairman, Security First National Bank, Los Angeles, Calif.
Homer J. Livingston	Chairman of the Board, The First National Bank of Chicago, Chicago, Ill.
John A. Mayer	Chairman of the Board, Mellon National Bank & Trust Company, Pittsburgh, Pa.
J. E. Patrick	President, Valley National Bank of Arizona, Phoenix, Ariz.
R. A. Peterson	President, Bank of America N.T. & S.A., San Francisco, Calif.
Edward J. Ruetz	Chairman and President Kenosha National Bank, Kenosha, Wis.
W. Harry Schwarzschild, Jr.	President, The Central National Bank, Richmond, Va.
Robert H. Steward, III	President, First National Bank in Dallas, Dallas, Tex.
Norfleet Turner	Chairman of the Board, First National Bank of Memphis, Memphis, Tenn.

REGIONAL ADVISORY COMMITTEES ON BANKING POLICIES AND PRACTICES

On November 11, 1965, the Comptroller of the Currency established 14 Regional Advisory Committees on Banking Policies and Practices to assist the agency in a continuing review aimed at keeping bank regulation abreast of the Nation's needs.

The Committees' membership and the dates of the regional meetings during fiscal 1968 follow:

Region 1 meeting dates September 4, 1968, and April 30, 1969.

Ralph A. McIninch (Chairman)	President, The Merchants National Bank, Manchester, N.H.

H. Allen Timm	President, First National Granite Bank of Augusta, Augusta, Maine
John Hunter, Jr.	President, Vermont National Bank, Brattleboro, Vt.
Alexander Hawley	President, Connecticut National Bank, Bridgeport, Conn.
Michael A. Gammino, Jr.	President, The Columbus National Bank of Rhode Island, Providence, R.I.
Gardner L. Brown	President, First Agricultural National Bank of Berkshire County, Pittsfield, Mass.
Edward M. Stone	President, Merchants National Bank, Bangor, Maine
William R. Kennedy	President, Merrimack Valley National Bank, Haverhill, Mass.
Francis H. Dewey, III	President, The Mechanics National Bank, Worcester, Mass.
Russell B. Neff	President, Third National Bank of Hampden County, Springfield, Mass.
Frank G. Chadwick, Jr.	President, The First New Haven National Bank, New Haven, Conn.
Richard P. Chapman	Chairman of the Board, New England Merchants National Bank, Boston, Mass.

Region 2 meeting dates—November 8, 1968, and April 11, 1969.

Robert R. Ferguson, Jr.	President, First National State Bank of New Jersey, Newark, N.J.
John G. Hewitt	President, First Merchants National Bank, Asbury Park, N.J.
Stuart McCarty	President, First-City National Bank of Binghamton, Binghamton, N.Y.
William L. Staehle	President, National Community Bank of Rutherford, Rutherford, N.J.
Peter White	President, Republic National Bank of New York, New York, N.Y.
James I. Wyckoff	President, The National Bank of Geneva, Geneva, N.Y.
William H. Bell, Jr.	President, First Camden National Bank & Trust Company, Camden, N.J.
Harold V. Gleason	President, Franklin National Bank, Mineola, N.Y.
Robert B. Hole	President, The National Bank of Auburn, Auburn, N.Y.
H. Russell Johnson	President, The Oneida National Bank & Trust Company of Central New York, Utica, N.Y.
William J. Kinnamon	President, The Hunterdon County National Bank of Flemington, Flemington, N.J.
Richard G. Macgill	President, First Trenton National Bank, Trenton, N.J.

Region 3 meeting dates—September 18, 1968, and May 15, 1969.

A. Dean Swift	President, The First National Bank of Williamsport, Williamsport, Pa.
Norman P. Mortensen	President, First National Bank of Mercer County, Greenville, Pa.
Owen D. Griffith	President, United States National Bank in Johnstown, Johnstown, Pa.
S. H. Carl Bear	Chairman of the Board, The Merchants National Bank of Allentown, Allentown, Pa.
F. B. Lansberry	President, County National Bank, Clearfield, Pa.
Eugene F. Lee	President, People's National Bank, State College, Pa.
John C. Tuten	President, National Bank and Trust Company of Pennsylvania, York, Pa.
Thomas H. Kiley	President, The First National Bank of Wilkes-Barre, Wilkes-Barre, Pa.

Harold F. Still, Jr.	President, The Central-Penn National Bank, Philadelphia, Pa.
Charles J. Heimberger	President, The First National Bank of Erie, Erie, Pa.
M. A. Cancelliere	President, Western Pennsylvania National Bank, Pittsburgh, Pa.
Harold J. Frey	President, The Fulton National Bank of Lancaster, Lancaster, Pa.

Region 4 meeting dates—September 25, 1968, and April 25, 1969.

Philip F. Searle	President, The Northeastern Ohio National Bank, Ashtabula, Ohio
Richard P. Raish	President, The First National Bank of Bellevue, Bellevue, Ohio
Burr S. Swezey, Jr.	Chairman and President, Lafayette National Bank, Lafayette, Ind.
R. E. Sweeney, Jr.	President, Merchants National Bank and Trust Company of Indianapolis, Indianapolis, Ind.
E. Paul Williams	President, The Second National Bank of Ashland, Ashland, Ky.
W. C. Fisher	Chairman, Liberty National Bank and Trust Company, Louisville, Ky.
Paul E. Shaffer	Executive Vice President, Fort Wayne National Bank, Fort Wayne, Ind.
Robert F. Garrettson	President, The First-Merchants National Bank of Michigan City, Michigan City, Ind.
Walter F. Lineberger, Jr.	Chairman & Chief Executive Officer, Society National Bank of Cleveland, Cleveland, Ohio
Frank A. McCracken	President, The Newport National Bank, Newport, Ky.
Fred B. Oney	President, The First National Bank, Carrollton, Ky.
Seward D. Schooler	President, Coshocton National Bank, Coshocton, Ohio

Region 5 meeting dates—December 12, 1968, and May 22, 1969.

Thomas E. Sebrell, III	President, United Virginia Bank/First & Citizens National Bank, Alexandria, Va.
Luther S. Berry	Executive Vice President, The Union National Bank of Clarksburg, Clarksburg, W. Va.
Wilbur N. Feltner	President, Farmers and Merchants National Bank, Winchester, Va.
C. C. Hope, Jr.	First Executive Vice President, First Union National Bank of North Carolina, Charlotte, N.C.
B. L. Jackson, Jr.	President, The First National Bank of Bluefield, Bluefield, W. Va.
Douglas R. Smith	Chairman of the Board and President, National Savings and Trust Company, Washington, D.C.
George Blanton, Jr.	President, The First National Bank of Shelby, Shelby, N.C.
J. Owen Cole	President, The First National Bank of Maryland, Baltimore, Md.
Hovey S. Dabney	President, National Bank and Trust Company, Charlottesville, Va.
Robert L. Gordon, Jr.	President, First & Merchants National Bank, Richmond, Va.
John P. Sippel	President, The Citizens National Bank, Laurel, Md.
Coleman E. Trainor, Jr.	President, The First Huntington National Bank, Huntington, W. Va.

Region 6 meeting dates—October 30, 1968, and May 30, 1969.

William W. Bruner	President, First National Bank of South Carolina, Columbia, S.C.

William H. Dial	President, First National Bank at Orlando, Orlando, Fla.
Leonard Usina	Chairman, Peoples National Bank of Commerce, Miami, Fla.
Guy W. Botts	President, Barnett First National Bank, Jacksonville, Fla.
C. S. Daley	President, Fourth National Bank of Columbus, Columbus, Ga.
C. A. Knowles	President, First National Bank of Griffin, Griffin, Ga.
A. L. Ellis	Chairman, First National Bank in Tarpon Springs, Tarpon Springs, Fla.
Gordon Jones	President, Fulton National Bank, Atlanta, Ga.
Bert Lance	President, The Calhoun National Bank, Calhoun, Ga.
R. A. Liggett	Chairman, The First National Bank of Tampa, Tampa, Fla.
Mitchell Patton	President, The Peoples National Bank, Greenville, S.C.
William K. deVeer	President, First National Bank in Palm Beach, Palm Beach, Fla.

Region 7 meeting dates—September 11, 1968, and May 21, 1969.

A. D. Van Meter, Jr.	President, The Illinois National Bank of Springfield, Springfield, Ill.
John A. Douglas	President, The First National Bank in Champaign, Champaign, Ill.
Joseph C. Hauser	President, Belleville National Savings Bank, Belleville, Ill.
Travis W. Pearse	Chairman and President, The National Bank of Jackson, Jackson, Mich.
Allen P. Stults	President, American National Bank and Trust Company of Chicago, Chicago, Ill.
G. J. Trauten	President, The First National Bank of Rock Island, Rock Island, Ill.
Lyndon D. Comstock	President, Hackley Union National Bank and Trust Company, Muskegon, Mich.
John H. French, Jr.	President, City National Bank of Detroit, Detroit, Mich.
Fred H. Hahne	President, The First National Bank of Manistique, Manistique, Mich.
R. G. Livasy	President, The Millikin National Bank of Decatur, Decatur, Ill.

Region 8 meeting dates—November 22, 1968, and June 20, 1969.

Clyde Hendrix, Jr.	President, The Hibernia National Bank in New Orleans, New Orleans, La.
R. L. Vanderpool, Jr.	President, The Ouachita National Bank, Monroe, La.
Robert M. Hearin	President, First National Bank in Jackson, Jackson, Miss.
A. R. McDonnell	President, Citizens National Bank, Meridian, Miss.
John P. Wright	President, American National Bank & Trust Company, Chattanooga, Tenn.
Walter Barnes	President, First National Bank, Jackson, Tenn.
Cecil K. Colon	Executive Vice President, Calcasieu-Marine National Bank, Lake Charles, La.
John W. Gay	President, First National Bank, Scottsboro, Ala.
W. D. Malone, Jr.	Chairman, First National Bank, Dothan, Ala.
Thomas W. Stone	President, Arkansas First National Bank of Hot Springs, Hot Springs, Ark.
Ellis E. Shelton	President, First National Bank, Fayetteville, Ark.
Harry M. Nacey, Jr.	President, Hamilton National Bank, Knoxville, Tenn.

Region 9 meeting dates—November 7, 1968, and June 11, 1969.

R. H. Walrath	President and Trust Officer, First National Bank of Watertown, Watertown, S. Dak.
George F. Kasten	President, First Wisconsin National Bank. Milwaukee, Wis.
Philip H. Nason	Chairman and President, The First National Bank of St. Paul, St. Paul, Minn.
Thomas E. Olson	President, The First National Bank of Starbuck, Starbuck, Minn.
Harold C. Refling	Chairman of the Board, The First National Bank of Fessenden, Fessenden, N. Dak.
Marvin R. Campbell	President, The First National Bank of Crookston, Crookston, Minn.
D. H. Gregerson	President, First National Bank in Anoka, Anoka, Minn.
John E. Davis	President, The First National Bank of McClusky, McClusky, N. Dak.
Scott Lovald	President, First National Bank in Philip, Philip, S. Dak.
W. A. Kummrow	President, First National Bank of Waukesha, Waukesha, Wis.
Carl F. Wilke	President, Shawano National Bank, Shawano, Wis.

Region 10 meeting dates—November 21, 1968, and May 22, 1969.

Barret S. Heddens, Jr.	President, The First National Bank of Kansas City, Kansas City, Mo.
Henry G. Blanchard	President, The Commercial National Bank of Kansas City, Kansas City, Kans.
Robert A. Brown	President, The Home National Bank of Arkansas City, Arkansas City, Kans.
J. O. Peck (Chairman)	Chairman, First National Bank and Trust Company of Columbus, Columbus, Nebr.
Albert M. Price	Executive Vice President, The Boone County National Bank of Columbia, Columbia, Mo.
Carleton C. Van Dyke	President, The Toy National Bank of Sioux City, Sioux City, Iowa
James E. Coquillette	President, The Merchants National Bank of Cedar Rapids, Cedar Rapids, Iowa
Dale Ball	President, First National Bank of Council Bluffs, Council Bluffs, Iowa
Charles Clevenger	President, The First National Bank of Topeka, Topeka, Kans.
Donald E. Lasater	President, Mercantile Trust Company, National Association, St. Louis, Mo.
Glenn Yaussi	Chairman of the Board, National Bank of Commerce Trust and Savings Association, Lincoln, Nebr.
Edward Cosgriff	President, City National Bank of Hastings, Hastings, Nebr.

Region 11 meeting dates—October 29, 1968, and May 16, 1969.

Paul Mason	President, The First National Bank of Fort Worth, Fort Worth, Tex.
Irvin M. Shlenker	Vice Chairman, Houston National Bank, Houston, Tex.
Richard King, III	Executive Vice President, Corpus Christi State National Bank, Corpus Christi, Tex.
John P. Butler	Chairman of the Board, The First National Bank of Midland, Midland, Tex.
A. W. Riter, Jr.	President, The Peoples National Bank, Tyler, Tex.
Earl Sneed	Vice President and Assistant to the President, The Liberty National Bank and Trust Company, Oklahoma City, Okla.

Clark Bass	President, First National Bank of McAlester, McAlester, Okla.
John Cleary	President, Republic National Bank of Tulsa, Tulsa, Okla.
George A. Nicoud, Jr.	Executive Vice President, First National Bank in Dallas, Dallas, Tex.
Eugene M. Phillips	President, The First National Bank, Panhandle, Tex.
W. L. Stephenson, Jr.	President, Central National Bank and Trust Company of Enid, Enid, Okla.
Sam D. Young, Jr.	President, El Paso National Bank, El Paso, Tex.

Region 12 meeting dates—November 12, 1968, and June 19, 1969.

A. B. Robbs, Jr.	Chairman of the Board, Continental National Bank, Phoenix, Ariz.
P. N. Dawson	Chairman of the Board, First National Bank in Boulder, Boulder, Colo.
P. L. Rice	Chairman of the Board, Westlake First National Bank, Loveland, Colo.
D. E. Scott	President, The Routt County National Bank of Steamboat Springs, Steamboat Springs, Colo.
R. L. Tripp	President, Albuquerque National Bank, Albuquerque, N.M.
J. W. Pearson	President, The First National Bank of Lovell, Lovell, Wyo.
Roger D. Knight, Jr.	Chairman of the Board, Denver United States National Bank, Denver, Colo.
Thomas S. Moon	President, First National Bank of Colorado Springs, Colorado Springs, Colo.
Reed H. Chittim	President, First National Bank of Hobbs, Hobbs, N.M.
John W. Hay, Jr.	Chairman of the Board and President, Rock Springs National Bank, Rock Springs, Wyo.
R. W. Miracle	President, The Wyoming National Bank of Casper, Casper, Wyo.
Harold J. Steele	Executive Vice President, Bank of Utah, N.A., Odgen, Utah

Region 13 meeting dates—October 24, 1968, and April 25, 1969.

A. E. Saunders (Chairman)	President, Puget Sound National Bank, Tacoma, Wash.
Ralph J. Comstock, Jr.	President, First Security Bank of Idaho, Boise, Idaho
C. H. Brocksmith	President, First Security Bank of Glasgow, Glasgow, Mont.
Harold M. Ormseth	President, First National Bank and Trust Company, Helena, Mont.
Willard R. Rhodes	President, Guaranty National Bank of White Center, Seattle, Wash.
Harold A. Rogers	President, Peoples National Bank of Washington, Seattle, Wash.
William G. Moran	President, The First National Bank of Ketchikan, Ketchikan, Alaska
E. L. Kunkel	President, The First National Bank of Butte, Butte, Mont.
Ralph J. Voss	President, First National Bank of Oregon, Portland, Oreg.
V. L. Moore	President, The National Security Bank of Newport, Newport, Oreg.
James Brennan	President, First National Bank of Spokane, Spokane, Wash.
Kenneth McElhaney	President, The Bellingham National Bank, Bellingham, Wash.

Region 14 meeting dates — November 1, 1968, and May 9, 1969.

Carl K. Schieck	Executive Vice President, Security Pacific National Bank, San Francisco, Calif.
Claude C. Blakemore	President, Southern California First National Bank, San Diego, Calif.
Carroll F. Byrd	President, The First National Bank of Willows, Willows, Calif.
K. J. Luke	Chairman of the Board and President, Hawaii National Bank of Honolulu, Honolulu, Hawaii.
R. M. Prior	President, Security National Bank of Nevada, Reno, Nev.
Emmett G. Solomon	President, Crocker-Citizens National Bank, San Francisco, Calif.
Linus E. Southwick	President, Valley National Bank of Glendale, Glendale, Calif.
Richard P. Cooley	President, Wells Fargo Bank, N. A. San Francisco, Calif.
Wayland T. Davis	President, San Joaquin Valley National Bank, Tulare, Calif.
Wallace H. McDaniel	President, Escondido National Bank, Escondido, Calif.
David H. Rowen	Chairman of the Board and President, Beverly Hills National Bank, Bevery Hills, Calif.
Carl E. Schroeder	President, The First National Bank of Orange County, Orange, Calif.

STATISTICAL APPENDIX

Tables

The statistical tables to this annual report will be published in the separate "Statistical Appendix."

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